Returns to good causes

Chapter 14

Business plan

14 Business plan

14.1 Introduction

Each Bidder is required to submit a detailed business plan in support of its Bid, drawn up in accordance with the requirements set out below and elsewhere in this ITA. The form of the business plan is described in further detail in section 14.3 below, but in summary will take the form of an Excel-based, integrated, financial model with supporting notes in Word (or equivalent) or Excel if appropriate. The business plan should fully reflect each Bidder's proposed approach to running the Lottery (including financing arrangements, proposed technology and operations, contributions to good causes, game plan and marketing plan, player protection plan, etc.) as described in its responses to other chapters.

Section 14.2 explains how the business plan will contribute to the overall evaluation of a Bidder's proposals. Each Bidder will be required to submit a number of different versions of its plan, including:

- A version of the plan based on the Bidder's forecast revenues (Principal Forecast);
- A version of the plan based on the Common Sales Scenario (Common Forecast); and
- Versions of the plan based on specified sensitivity tests (Specified Sensitivity Tests).

14.2 Business plan evaluation

Each Bidder's business plan will contribute to a number of key parts of the evaluation:

- It is intended to satisfy the Commission about the likely level of contributions to good causes that it will deliver;
- It assists in demonstrating that each Bidder's proposals are well founded and based on a clear and realistic view of the inputs that are required to run a successful Lottery;
- It plays an important role in allowing a Bidder to demonstrate financial soundness over a wide range of possible scenarios and as such will contribute to the Commission's assessment of a Bidder's compliance with that Required Standard; and
- Through sensitivity testing, the business plan will also demonstrate a Bidder's flexibility to adapt its approach to a range of possible developments over the whole of the Licence Period, and the implications for its financial soundness and level of contributions under those scenarios.

The evaluation of each Bidder's business plan will comprise a combination of comparative and absolute assessments:

- Comparative analysis – this will focus on the key drivers underlying the business plan to compare the relative merits of each Bidder's proposals and assess whether, in relation to other Bidders, a particular Bidder is able to justify differences in proposed revenue potential to the Commission's satisfaction. It will also analyse differences in the underlying retention structures between Bidders; and
- Absolute analysis – this will focus on assessing the realism of projections of total turnover in order to understand the differences in terms of returns to good causes that arise as a result. In practice, the Commission is likely to use a range of turnover levels and probability analysis to determine an adjusted level of expected turnover.

In order to assist the Commission in its evaluation, each Bidder will be required to submit its business plan based on the scenarios outlined in section 14.5 below. It is important for each Bidder to understand the differences between these scenarios and how they will be used, which is as follows:

- The Commission will start its evaluation with each Bidder's Principal Forecast; and
- The Commission will use the information provided under each Bidder's Common Forecast and the Specified Sensitivities in order to adjust the Bidder's Principal Forecast based on the Commission's evaluation of the Bidder's response to the returns to good causes elements of this ITA, and taking into account key strengths and weaknesses and any particular risks affecting each Bid.

Each Bidder should note that, in addition to the Specified Sensitivities set out here, the Commission expects to conduct its own, additional sensitivity tests to determine further the impact on returns to good causes of different revenue and cost scenarios, and to reflect its own judgements about the credibility of the plans and proposals underpinning the Bidder's Principal Forecast. Where necessary, the Commission will seek further information from a Bidder's analyst to understand the effects of these additional scenarios.

14.3 General assumptions

All financial projections should be shown in nominal terms. Each Bidder should use the following assumptions when preparing their business plan and projections:

- A single, ten-year Licence commencing on 1 February 2009;
- Real GDP growth in the UK economy of 2.25 per cent in 2006 and 3 per cent in both 2007 and 2008. For 2009 to 2019, bidders should assume a real GDP growth rate of 2.5 per cent per annum;
- Inflation (as measured by the annual change in the Consumer Prices Index, CPI) of 2 per cent throughout;
- Base interest rates, LIBOR rates, exchange rates and other financing rates should be taken as at close of business (London) on the date of issue of this ITA. Where applicable these should represent a mid-market rate as quoted in the London edition of the Financial Times;
- Lottery duty remains at 12 per cent on stakes and the current corporate tax regime remains unchanged;
- Licence fees are not subject to VAT;
- VAT is not chargeable on lottery tickets since they are an exempt supply;
- All prizes due to participants are claimed i.e. there should be no contribution to good causes assumed to be made as a result of participants not claiming prizes; and
- Ticket sales are limited to the Commission's current jurisdiction (i.e. UK and Isle of Man).

14.3.1 Investment during the Licence Period

Each Bidder is required to include, as part of its Bid, a commitment to undertake the maintenance programme necessary to keep its proposed operations fit for purpose throughout the Licence Period. This means that the operations, systems and assets that are put in place at commencement of the Licence must remain capable of offering the required level and quality of service through to the end of the Licence Period. Each Bidder's business plan must clearly show the relevant expenditure.

In respect of technology systems, the Commission is aware that in other jurisdictions, during a ten-year licence, it may be a specified requirement that the operator replace all, or substantially all, of its technology systems mid-way through the licence period. In this instance, Bidders are not being required to provide for such a complete technology refresh at a defined point during the Licence. Bidders must, however, ensure that their Technology Operation is maintained to deliver the fit for purpose requirement above, and with due consideration of relevant technologies available at the time. Bidders may decide to include in their cost projections and plans a replacement programme if they believe this is an efficient way of achieving this objective.

The Commission's rationale for adopting such an approach is that developments in the Lottery technology infrastructure for the period 2009-2019 are very difficult to predict with any accuracy at the time of bidding. Requiring Bidders to do so might lead to:

- Bidders making different assumptions about the levels of investment required, which would then distort the evaluation process in a potentially unfair manner;
- Sub-optimal decisions about investment, in that Bidders might commit at the time of bidding (as part of their agreement with their contractors) to capital investment which subsequently did not match their needs; or
- A mismatch between the provision made by a Bidder and the investment that subsequently proved optimal, so distorting investment decisions to the potential cost to returns to good causes.

The Commission is aware that, in addition to such a technology refresh, there may be significant, unanticipated, investment opportunities during the Licence Period that have the capability to enhance the Lottery in a way that benefits both good causes and the Licensee which, in certain circumstances, might not be undertaken where the Licensee is required to bear the full burden of that investment. Given the uncertainty surrounding any such step-change investment, the Commission has not prescribed a specific mechanism for dealing with step-change investment.

Rather, the Commission will be willing to consider, at the relevant time and on a case-by-case basis, proposals for investment in the Lottery infrastructure that seek to allow the Licensee to recover an element of its investment costs, and would do so on the basis of business plan proposals to be put forward by the Licensee at the time. The Licensee would need to convince the Commission that such investment would genuinely serve to increase returns to good causes in a manner that generated an appropriate return on that investment from a good causes perspective. The Commission would expect such proposals to take account of any cost savings made by the Licensee, either through more efficient operations or through savings in the maintenance and investment costs provided for in its Bid. The Commission would expect to adopt the most appropriate arrangement to support such investment, which might include, for example, granting a licence extension.

Bidders should note that there is no guarantee that such arrangements will be agreed, and must therefore not make their Bids contingent upon such arrangements being adopted.

14.4 Form of business plan

Each Bidder is required to submit each version of its business plan in the form of an integrated, Excel-based financial model, together with hard copies of the entire financial model. Supporting notes can be supplied in Word or Excel as required. The Commission will not prescribe the overall form of the model, but at a minimum it should include the following outputs:

- Separate worksheets showing annual income statement, cashflow statements and balance sheets for the duration of the Licence Period; and
- Further separate worksheets showing the monthly income statement, cashflow statements and balance sheets for the Transition Period and the first two full years of the licence.

In each case, these output sheets must conform substantially to the format set out in Appendix C, and provide the information set out there, where applicable. However, if a Bidder wishes to include additional categories of financial items to reflect more accurately its business plan it should do so.

Each Bidder should note that the Commission's evaluation team is likely to use the data from the output sheets of each financial model for the purpose of its own comparative analysis of business plans. This may include further sensitivity tests, in addition to those described in section 14.5, that the Commission decides are appropriate, or other adjustments to a Bidder's projections. It is important, therefore, that the supporting information requested below (for example, in relation to cost drivers and variability) is in as complete a form as possible.

In all cases, the financial model must be accompanied by a letter from an auditor who is eligible to be appointed as a company auditor in accordance with the Companies Act 1989. The letter shall be addressed to the Commission, providing an opinion that the projections provided under section 14.5 have been properly compiled on the basis of the assumptions stated (including, for the avoidance of doubt, the information provided in response to other sections of this ITA where appropriate), and prepared in conformity with International Financial Reporting Standards.

For the purposes of assisting the Commission in understanding the key drivers and underlying dynamics of the model, each Bidder should make available an analyst who is able to explain and interpret the model underlying its business plan as and when requested by the Commission.
The name of such a person must be specified in the response to this section.

14.5 Evidence required

Each Bidder must ensure that the projections submitted are based on reasonably and properly held assumptions, are consistent with the financial information presented elsewhere in its response, and are consistent with the proposals set out in response to this ITA.

Bidders should note that their responses to chapter 15 must include a commentary on the incentive structure that results from their proposed (primary and secondary) contributions to good causes. This will need to be consistent with the information provided here and the assumptions about revenue and cost variability that underpin these projections.

Bidders are reminded that the financial effects of Ancillary Activities should be excluded from Bidders' forecasts.

14.5.1 Principal Forecast

The Principal Forecast must represent the version of the business plan that best represents each Bidder's view of the financial projections that result as a consequence of the proposals set out in its Bid.

Each Bidder must provide:

1. Its Principal Forecast.

2. A commentary on its revenue projections, which should link to the justifications and forecasts provided as part of the Bidder's response to the Marketing Requirements.

3. A detailed justification for all expenditure projections, including capital expenditure and operating expenditure. Each Bidder must provide an explanation of the basis on which it has projected its own costs. Where expenditure relates to goods or services provided by third parties, it should indicate whether its projections reflect:
   a. Commitments under existing contracts, giving details of the pricing framework applying and the duration of each contract; or
   b. Expectations of terms that will be agreed in future, together with any evidence to support such assumptions. A Bidder may refer to its response to section 10.2, as necessary.

4. A further commentary in relation to expenditure projections that describes the structure of each Bidder's costs, identifies the main cost drivers, and gives a detailed explanation of the extent to which different cost categories are likely to vary with ticket sales, distinguishing where relevant between the different types of game or any other factor.

5. In the event that a Bidder's Principal Forecast is materially different from the Common Forecast (see section 14.5.2), it should give a full justification for the differences in the projections, including differences between revenue and cost items.

6. Details of its financing strategy throughout the projected period, including any changes in the proposed financing structure or sources of financing including any proposed or potential refinancing of facilities, any limitations in liquidity or availability of financing, and any potential breaches of terms and conditions of any financing should these occur under any scenario.

7. The contact details for the Bidder's appointed analyst, as set out in section 14.4.

14.5.2 Common Forecast

The Commission considers that it will be better able to identify and assess the main distinguishing features between the Bids if, in addition to each Bidder's own Principal Forecast, it receives a business plan from each Bidder that is based on a common level of total sales for each year of the Licence (the "Common Forecast"). The Common Forecast must be based on the sales forecast referred to as the Common Sales Scenario and set out at Appendix B. The main aim of this Common Forecast will be to help the Commission understand the key differences between the revenue and cost projections of Bidders, rather than forming part of the evaluation process in its own right.

Bidders should note that the Common Sales Scenario is not intended to represent the Commission's own forecast, or an indication of the outcome that the Commission considers most likely.

The Common Forecast represents a second full version of the business plan based on the assumption that total sales revenue in each year is consistent with the Common Sales Scenario. The breakdown between revenues from draw-based games distributed through retailers, draw-based games not distributed through retailers, scratchcards and interactive instant win games in the first year of the Licence should be assumed to be that specified in Appendix B. In subsequent years, each Bidder may adopt its own assumptions about the proportion of revenues from different types of game. Each Bidder must provide:

1. Its Common Forecast.

2. Where the underlying assumptions are materially different from those adopted for that Bidder's Principal Forecast, a detailed explanation of the reason for such differences.

3. A commentary on the Common Forecast, including:
   a. The impact on the cost base and its constituent elements resulting from revenues being higher or lower than those assumed for the Principal Forecast;
   b. The impact on financial soundness resulting from revenues being higher or lower than those assumed for the Principal Forecast, and any measures that would be required to ensure financial soundness under the Common Forecast; and
   c. The impact on other aspects of the business plan, including the extent to which the Bidder would be likely or would be required to adjust its game plan, marketing plan, technology, investment plan or other aspects of its business plan in the light of turnover being higher or lower than that in the Principal Forecast.

14.5.3 Sensitivity tests

In addition, each Bidder is required to submit additional versions of the outputs (as set out in Appendix C) of its business plan for the sensitivity tests set out below. Bidders should note that the purpose of the sensitivity tests is not to provide an indication of those scenarios that the Commission deems likely to occur. Instead, they are designed to help the Commission understand how a Bidder might adapt its approach to a range of possible developments over the Licence Period and the consequent implications of this for either financial soundness or for expected contributions to good causes. The sensitivity tests are also intended to provide the Commission with further information in order to understand the dynamics of a Bidder's revenues and costs in a range of scenarios. If a Bidder believes there are any facts that would materially affect the likelihood of a sensitivity scenario arising, for example, in the case of cost sensitivities where its costs have been contractually agreed, it should still provide the version of its business plan detailing the financial effects of the sensitivity but should detail those relevant facts in its accompanying narrative.

Each Bidder is required to provide one or more Excel versions of its financial model in which the Commission can adjust the parameters within the sensitivities outlined below. The Commission reserves the right to request any or all Bidders to provide further sensitivities during the evaluation period.

Each Bidder must provide:

1. Outputs of the business plan (as set out in Appendix C) for each of the following sensitivities:

   Principal Forecast
   a. All games produce 110 per cent of the revenue projected
   b. All games produce only 90 per cent of the revenue projected
   c. All games produce 125 per cent of the revenue projected
   d. All games produce only 75 per cent of the revenue projected
   e. The main draw games (or major draw-based games, as appropriate) produce only 75 per cent of the revenue projected
   f. All other games produce only 75 per cent of the revenue projected

   Common Forecast
   g. All games produce only 75 per cent of the revenue projected

   Cost sensitivities
   h. All costs (excluding retailer commissions) are 10 per cent higher than those projected in the Principal Forecast
   i. All costs (excluding retailer commissions) are 10 per cent lower than those projected in the Principal Forecast
   j. Sales of draw-based games through non-retailer distribution channels are 200% of the level assumed in the Principal Forecast, with sales of draw-based games through retailers correspondingly lower, such that the total sales of draw-based games through all distribution channels remains as specified in the Principal Forecast
   k. Sales of draw-based games through non-retailer distribution channels are 50% of the level assumed in the Principal Forecast, with sales of draw-based games through retailers correspondingly higher, such that the total sales of draw-based games through all distribution channels remains as specified in the Principal Forecast

   Other
   l. Revenues are reduced on an annual basis to a level at which the Bidder only breaks-even on a cash flow basis
   m. Revenues are reduced on an annual basis in order to show the level at which covenant breaches of financing documents just start to occur

2. A summary of the expected impact on different types of cost and other aspects of the business plan of the changes specified in each sensitivity test.

3. A summary of the extent to which the Bidder would be likely to adjust its game plan, marketing plan, technology, investment plan or other aspects of its business plan in the light of the changes specified in each sensitivity test.

Chapter 15

Contributions to good causes

15 Contributions to good causes

15.1 Introduction

Provided the Commission is satisfied that each of the Required Standards has been met, the Licence will be awarded to the Bidder that the Commission considers is best able to support the greatest forecast returns to good causes.

Returns to good causes, or contributions, are ultimately determined as a result of two elements: the ability of the Licensee to generate turnover; and the proportion of any revenues that is available for good causes after deducting prizes, Lottery Duty, retailer commissions and retentions to cover the Bidder's own costs and generate the required return. This chapter focuses on the retention structure that will be applied to revenues in order to determine what proportion of revenues each Bidder proposes to retain, but also how the proposed retention structure affects the incentives of each Bidder to generate those revenues.

The Commission's approach in designing the overall retention structure has been to ensure that, as far as possible, the incentives of the Licensee to maximise profits will be aligned with generating the maximum return for good causes. The retention structure has a number of elements, set out below, which are designed to ensure that those incentives continue to remain aligned as far as possible, both at the time of bidding, and during the Licence Period. Bidders should note that a further explanatory document has been published on the Commission's website that summarises the rationale for the adopted approach on the retention structure and explains the role of retentions in the overall incentive structure.

There are two types of contributions to good causes:

- Primary contributions – which are a function of total ticket sales and the proportion that is available for good causes after deducting prize payments, Lottery Duty, retailer commission and the Bidder's own retention. Chapter 18 gives details of the information that Bidders should provide on prize payments, section 19.4.3 gives details of the information that Bidders should provide on retailer commission, and section 15.4 below describes the way that the Bidder's own retention should be specified;
- Secondary contributions – which are a proposed share of any surpluses generated from running the Lottery which are beyond those originally forecast and which might be considered windfall profits. Section 15.5 describes the way that these contributions should be specified. Bidders should note that specifying secondary contributions is entirely voluntary;

The primary contribution will depend on the level of turnover and each Bidder will be required to specify two sets of retention rates for different turnover bands, or tranches:

- The Gross Sales Retention – this is the proportion of total turnover that each Bidder will retain; and
- The Net Sales Retention – this is the proportion of turnover each Bidder will retain net of Lottery Duty, prize payments, retailer commission and the Gross Sales Retention.

The purpose of this structure is that the Gross Sales Retention should be used to recover expected variable costs – that is those costs that are likely to vary directly with turnover. The Net Sales Retention should then be used to recover the rest of each Bidder's expected costs, and also to generate any profits or other surpluses.

The overall retention structure is set in this way in order to relate each Bidder's profits as closely as possible with its contributions to good causes. This should assist in aligning the Licensee's incentives as far as possible with the interests of good causes, and encourage the Licensee to take actions or make changes, for example to the mix of games or to the prize payout ratio, that will generate both increased returns for good causes and higher profits for the Licensee.

This will enable the Commission to place greater reliance on the commercial judgements of the Licensee when making its regulatory decisions on commercial matters. Bidders should note that bidding a structure where incentives are poorly aligned, (e.g. by specifying retention rates for the Gross Sales Retention that do not reflect the Bidder's expected variable costs, or bidding an overall retention structure that fails to provide the Bidder with incentives to generate increases in turnover), is likely to result in more interventionist regulation.

The Commission expects to assess the expected contributions to good causes from each Bidder under a number of scenarios (including those described in section 14.5). The evaluation will take into account, among other things, the Commission's view of the likely range of outcomes for the key determinants of each Bidder's primary contribution, i.e. turnover and mix of games for primary contributions and, in the case of secondary contributions where relevant, total profits or other relevant variables.

15.2 Incentives to grow sales

The Commission recognises that, all other things being equal, a low Bidder retention will be consistent with a high contribution to good causes. Nevertheless, the Commission is concerned that the marginal retention rate should not be so low that the Bidder, once it has been awarded the Licence, no longer has an effective incentive to increase ticket sales and hence contributions to good causes. This would be the case, for example, if the net amount that the Bidder retained from additional sales was negligible or even negative after taking account of any increased costs associated with those sales.

The Commission recognises that different types of game may have different cost and prize payout structures. It is therefore allowing Bidders to specify retention rates that will apply separately to draw-based games[43], scratchcard games and interactive instant win games and any other games that might be proposed. While any difference in the expected variable costs of certain games should be reflected in a different Gross Sales Retention for that particular class or type of game, Bidders will also be able to propose a separate Net Sales Retention for each of draw-based games, scratchcard games and interactive instant win games.

The Commission recognises that a higher Net Sales Retention rate, so that the Bidder benefits to a greater extent from increased sales, might increase the volatility of profits and also reduce the share in the benefits that will accrue to good causes from higher than expected turnover. Particularly for game types that account for high proportions of total turnover (i.e. draw-based games at present), the Commission will expect each Bidder to propose a retention structure that achieves an appropriate balance between:

- Incentives to increase turnover, such that the Bidder will be encouraged to take action[44], where possible, to generate additional ticket sales; and
- Volatile profits, such that the Bidder's profits might become either excessively high or excessively low over quite plausible ranges of turnover whereby:
  - Profits that are exceptionally high might lead to the Bidder capturing significant revenues that would otherwise have gone to good causes, and generate adverse publicity for the Lottery simply because of high profits. Bidders may wish to consider, in this scenario, whether a provision for a secondary contribution may be appropriate; and
  - Conversely, profits that are exceptionally low might create financial difficulties for the Bidder or otherwise restrict its activities. Bidders may wish to consider here whether or not they are able to structure the tranche boundaries and rates for the retention to protect against volatile downside scenarios.

[43] Within the category of "draw-based games" moreover, separate retention rates may be bid for tickets sold through traditional retailers and for tickets sold through other distribution channels. This is mainly because of the way that retailer commissions are treated (i.e. deducted from Gross Sales in the same way as Duty and prizes), but also allows for retention rates to reflect more accurately the expected costs of these other distribution channels.

[44] The Commission requires, however, that some of the activities that might significantly affect turnover (such as marketing expenditure or the size of the distribution network) are subject to minimum requirements that will be binding.

For all Bidders, though especially for any not-for-profit Bidders, the remuneration arrangements for directors and senior managers may also form an important part of the incentive framework. There may be a risk to the reputation of the Lottery (and hence to turnover and returns to good causes) if directors and senior managers are perceived as earning excessively high salaries. But if high salaries are awarded as part of an effective management incentive plan that leads to the Bidder generating higher turnover and thus higher contributions to good causes, the beneficial impact of such incentives may outweigh the impact of any detrimental effect on the public perception of the Lottery.

Within their commentary on the incentive structure, therefore, Bidders must make reference to their proposed framework for directors' and senior managers' remuneration (which should be consistent with any details of employee incentive schemes submitted in response to section 7.4.3) and the extent to which this also forms part of an overall incentive framework that they believe will encourage the Bidder to grow sales and hence increase contributions.

15.3 Evaluation criteria

The retention rates specified by Bidders in their response to this chapter will (alongside the determinants of total turnover, such as game, marketing and distribution plans) play a major role in determining the expected contributions to good causes that each Bidder would be expected to generate. Thus retention rates will play an important role in the assessment of business plans, and hence the evaluation of likely contributions to good causes, described in chapter 14.

Similarly, the basis for any secondary contributions proposed in Bidders' responses to this chapter will be included in the Commission's assessment of business plans and likely returns to good causes. But Bidders should note that any expected contributions from Ancillary Activities will not be taken into account when evaluating the contributions to good causes that each Bidder would be expected to generate.

The retention rates specified in response to this chapter, alongside information provided by Bidders in relation to the expected level and structure of their costs, will determine the effectiveness of the incentive framework under which each Bidder would operate. While the incentive framework is not a separate evaluation criterion in its own right, it might nevertheless influence the Commission's view of the believability of, and risks associated with, each Bidder's turnover forecasts.

The Commission will expect to pay particular attention to any cases where the proposed retention rates might give rise to perverse incentives, (for example, if the retention rates operated so that, in certain circumstances and after taking account of expected cost changes, the impact of an increase in turnover would be to reduce the Bidder's profits).

More generally if, as a result of its proposed retention rates, a particular Bidder appeared to have negligible or low incentives to generate increased turnover (either in general or for particular game types), then the Commission would need to consider whether and how these low incentives might affect that Bidder's behaviour, if awarded the Licence. As noted above, this could affect the Commission's view of the believability of a particular Bidder's turnover forecasts.

The incentive structure, and particularly the way in which the Bidder's costs and revenues vary when turnover is lower than expected (or in other downside scenarios), will also feed into the Commission's assessment of financial soundness as described in chapter 11. For this reason, and also as part of its general consideration of the information provided by Bidders, the Commission will wish to ensure that the information Bidders provide in this chapter about the level and structure of their costs (and therefore the incentive structure that results from a particular set of retention rates) is consistent with the sensitivity tests submitted in response to chapter 14.

15.4 Primary contributions

15.4.1 Introduction

Primary contributions are mandatory and must be specified as part of the Bid. A worked example of the primary contribution is provided at Appendix E.

Primary contributions to good causes are determined by the amount of turnover left over after deducting Lottery Duty, prize payments, retailer commissions and the Bidder's own retention. Lottery Duty is currently fixed at 12 per cent of gross sales, prize payments will be made in accordance with the prize payout ratios proposed in the Bidder's response to chapter 18, and retailer commissions will be determined in accordance with the Bidder's response to chapter 19. The Bidder's retention is therefore the final determinant of the level of primary contributions to good causes that will result from a given level and mix of ticket sales.

Separate retention structures (with different tranche boundaries and retention rates) can be specified for:

- *Draw-based games distributed through retailers:* being draw-based games, tickets for which are sold at the retailers' premises;
- *Draw-based games not distributed through retailers:* being draw-based games, tickets for which are sold by means other than at retailers' premises, which might include but are not limited to the Internet, mobile phones and interactive television;
- *Scratchcards:* being any instant win game where tickets are sold at retailers' premises; and
- *Interactive instant win (IWG) games:* being any instant win game where tickets are not sold at the retailers' premises. This is intended to include, but not be limited to, the Internet, mobile phones and interactive television.

As noted in section 15.1, there are two parts to the retention structure for each type of game:

- The Gross Sales Retention, which is designed to cover each Bidder's expected variable costs (ie those that are likely to vary directly with level of turnover). It is calculated for different turnover bands or tranches as a proportion of total turnover, before any deductions; and
- The Net Sales Retention, which is designed to cover the rest of each Bidder's expected costs and also provide each Bidder's profit or return. It is calculated for different tranches as a proportion of the turnover that remains after deducting Lottery Duty, prize payments and the Gross Sales Retention. For retailer-distributed draw-based games and scratchcards only, retailer commissions are also deducted. For non-retailer-distributed draw-based games and interactive instant win games, any costs that may be analogous to retailer commissions (whether incurred by the Bidder itself or its suppliers) should be covered by the Gross Sales Retention specified by the Bidder.

For either retention, each Bidder is requested below to specify the boundaries that will define the separate turnover tranches and the retention rates that will apply within each tranche.

The Commission's intention is that the Gross Sales Retention should be used primarily as a means of allowing each Bidder to recover its expected variable costs. To the extent that certain costs are expected to vary directly with a certain level of turnover, this should be reflected in the retention rate specified for the relevant tranches.

Other expected costs should be recovered through the Net Sales Retention. As these are costs that do not vary directly with turnover the Commission would expect the Bidder to recover these costs by specifying higher retention rates for the very lowest turnover tranches, (though with no particular need to attribute different fixed costs to particular game types, provided they are covered in aggregate). If a Bidder follows this approach to recovering these non-variable costs, it should ensure that any higher retention rates apply only to turnover bands that are well below expected levels, even in downside scenarios. Otherwise, if turnover fell within one of these tranches, any further loss of turnover could, because of the higher retention rate, have a significant impact on the Bidder's profits and perhaps threaten its financial viability.

The Net Sales Retention is also intended to provide each Bidder's profit subject to costs being in line with expected levels. If the Bidder's non-variable costs are recovered from the very lowest turnover tranches, then the retention rates applying to higher turnover tranches will simply reflect the additional profit that each Bidder makes from additional sales (and hence that Bidder's incentives to increase turnover). Since the turnover that remains after deducting Lottery Duty, prizes, retailer commission and the Gross Sales Retention will be split between the Bidder and good causes according to the level of Net Sales Retention specified, this provides a means of relating the Bidder's profits directly to the amounts generated for good causes.

A not-for-profit Bidder should specify the Net Sales Retention at a level that generates sufficient surpluses that can be held as reserves to assist financial soundness. A not-for-profit Bidder should structure the secondary contribution such that it passes further surpluses over-and-above this level to the good causes. Any reserves remaining at the end of the Licence Period would be contributed to good causes.

15.4.2 Evidence required

15.4.2.1 Rationale

Each Bidder must describe:

1. The incentives to increase sales that will result from its proposed Gross and Net Sales Retention structure, taking into account its cost structure and in particular the extent to which costs are likely to vary with ticket sales.

2. In cases where incentives to increase turnover are weak, the reasons why, if awarded the Licence, the Bidder will still be motivated to take appropriate actions to generate a healthy level of turnover.

3. The impact on profitability and contributions to good causes of the incentives created by the Bidder's proposed retention structure.

4. The impact on its financial soundness and in particular its ability to withstand downside scenarios including lower than expected turnover.

5. Its proposed framework for directors' and senior managers' remuneration (which should be consistent with any details of employee incentive schemes submitted in response to section 7.4.3), the extent to which this also forms part of an overall incentive framework that they believe will encourage the Bidder to grow sales and hence contributions, and any proposed mechanism for providing the Commission with confidence that this proposed framework will be implemented in practice.

15.4.2.2 Gross Sales Retention

Each Bidder must:

1. Specify the proposed tranches and retention rates for the Gross Sales Retention in the following format. Four separate tables should be completed, covering respectively retailer-distributed draw-based games, non-retailer distributed draw-based games, scratchcard games and interactive instant win games.

Tranche of Gross Turnover	Lower bound (£ pa)	Upper bound (£pa)	Retention rate (%)
1	0	–	–
2	–	–	–
3	–	–	–
4	–	–	–
5	–	–	–
6	–	Unlimited	–

2. Provide a clear description of the expected variable costs that will be covered by their proposed retention rates, and link this with the description of costs provided in response to chapter 14. Bidders should note that retailer commissions for retailer-distributed draw-based games and scratchcard games are treated separately (in the same way as Lottery duty and prize payments) and therefore should not be covered by the Gross Sales Retention.

15.4.2.2.1 Guidance notes

As noted above, the main aim of the Gross Sales Retention is to allow each Bidder to cover its expected variable costs. The Commission will expect the retention rates specified for each turnover tranche to reflect those costs that are likely to vary with ticket sales over that range of turnover. This is to ensure that the Bidder's incentives are aligned as closely as possible with the interests of good causes.

The retention rates as stated by the Successful Bidder in its response shall apply for the first 14 months of the Licence – from 1 February 2009 to 31 March 2010. Thereafter, on 1 April each year, the tranche boundaries will be increased in line with the percentage increase, (rounded to one decimal place), in the Consumer Prices Index (CPI, as published by the Office for National Statistics) in the 12 months to the previous February.

The table above shows six tranches. Each Bidder is free to specify fewer tranches. The Commission does not anticipate that a Bidder will generally need to specify more than six tranches, but if it wishes to do so then it must also state the reasons for requiring more than six tranches.

In no case should the retention rate for a particular tranche and a particular type of game exceed the total proportion of sales revenue that will be left over after deducting Lottery Duty, prize payments and, where relevant, retailer commission.

For the avoidance of doubt, the retention rate specified for each tranche only applies to turnover above the lower boundary of that tranche and up to the upper boundary. Thus, if a Bidder were to specify retention rates of 3 per cent for turnover up to £1 billion and 2 per cent for turnover between £1 billion and £2 billion, then the retention that would apply to turnover of £1.5 billion would be calculated as 3 per cent of £1 billion plus 2 per cent of £500 million i.e. £30 million + £10 million = £40 million.

For the avoidance of doubt, all Bidders should note that the total retention from each game type will be determined solely by total gross and net turnover and the relevant gross and net retention rates. The required relationship with variable costs, other costs and profits refers to the expected level of these costs at the time of bidding. The Licensee will not be required to reconcile different parts of the total retention to particular uses or to make an adjustment if certain costs are higher or lower than originally expected.

15.4.2.3 Net Sales Retention

Each Bidder must:

1. Specify the proposed tranches and retention rates for the Net Sales Retention in the following format. Four separate tables should be completed, covering respectively retailer-distributed draw-based games, non-retailer distributed draw-based games, scratchcard games and interactive instant win games.

Tranche of Gross Turnover	Lower bound (£ pa)	Upper bound (£pa)	Retention rate (%)
1	0	–	–
2	–	–	–
3	–	–	–
4	–	–	–
5	–	–	–
6	–	Unlimited	–

15.4.2.3.1 Guidance notes

The main aim of the Net Sales Retention is to allow each Bidder to recover its other (non-variable) costs and to provide a level of profits that is dependent on the amount of money available to good causes. This will be based on total turnover net of Lottery Duty, prize payments, retailer commissions (for retailer-distributed draw-based games and scratchcards) and the Gross Sales Retention. Bidders should specify, for different tranches, the proportion of this net turnover that they will retain.

In order to recover expected non-variable costs, the Commission will expect Bidders to specify higher retention rates for one or more very low turnover tranches. However, the retention rates specified for higher turnover tranches (ie those tranches within which turnover might plausibly fall) should reflect only the additional profit that the Bidder will make from additional sales.

Bidders should take care to note the comments in section 15.2 about the incentive structure. If, as indicated above, the Gross Sales Retention is specified so as to cover the Bidder's expected variable costs, then the Net Sales Retention (plus any secondary contributions, if applicable) will be the main influence on the Bidder's incentive structure.

The retention rates as stated by the Successful Bidder in its response shall apply for the first 14 months of the Licence – from 1 February 2009 to 31 March 2010. Thereafter, on 1 April each year, the tranche boundaries will be increased in line with the percentage increase (rounded to one decimal place) in the Consumer Prices Index ("CPI", as published by the Office for National Statistics) in the 12 months to the previous February.

The table above shows six tranches. Each Bidder is free to specify fewer tranches. The Commission does not anticipate that a Bidder will generally need to specify more than six tranches. But if it wishes to do so then it must also state the reasons for requiring more than six tranches.

The retention rate specified for each tranche only applies to turnover above the lower boundary of that tranche and up to the upper boundary. Thus if a Bidder were to specify retention rates of 50 per cent for net turnover up to £200 million and 2 per cent for net turnover above £200 million, then the retention that would be apply to net turnover of £300 million would be calculated as 50 per cent of £200 million plus 2 per cent of £100 million i.e. £100 million + £2 million = £102 million.

15.5 Secondary contributions

Secondary contributions are not mandatory. Therefore this section only requires a response in the event that a Bidder determines that it wishes to propose secondary contributions.

Bidders may propose a share of any surpluses generated from running the Lottery which are beyond those originally forecast and which might be considered windfall profits. This is intended to safeguard the interests of the good causes where a Bidder generates additional returns as a result of factors other than its own efforts.

Secondary contributions also provide a means for a not-for-profit Bidder to return any surpluses to good causes. A not-for-profit Bidder should structure any secondary contributions in a way that allows it to build up reserves to support its financial stability, with the balance on its reserves being passed to good causes at the end of the Licence Period. Any secondary contribution beyond that which the Bidder considers necessary to retain as reserves should be passed to the good causes immediately following the period in which it arises.

Within this general framework, each Bidder may propose specific formulae that will be used to determine its secondary contributions to good causes. It is important, however, that any such formula is based on variables that can be objectively measured and, if necessary, audited. The formula must be capable of producing unambiguous objective results for a given outturn.

If a Bidder wishes to specify a secondary contribution, it must:

1. Specify how the secondary contribution will be calculated and when it will apply.

2. Set out the rationale for its proposed approach. Where contributions are dependent on variables (such as outturn profits) that may themselves be uncertain, the Bidder should provide evidence to justify its projections of these variables.

3. Describe the impact of any secondary contributions on the overall incentive structure, and in particular its ability either to blunt the incentive structure that would otherwise apply or else to mitigate the potentially harmful effects of profit volatility.

Chapter

16

Marketing – Guidance

16 Marketing – Guidance

16.1 Introduction

This chapter provides an introduction and high-level explanation of the requirements, evaluation criteria and evidence required as part of a Bidder's marketing plans, contained in chapters 17 to 21. Bidders are not required to respond to this chapter, but they should take into account the material set out here when responding to the marketing plans as a whole.

The Marketing part of the ITA has five chapters (17-21, known together as the marketing requirements) as follows:

- Chapter 17 – Marketing: Executive summary
  – This is an introduction section, and responses must set out a summary of each Bidder's marketing plans and its vision for the Lottery, with a rationale for why its plans will maximise returns to good causes;
- Chapter 18 – Marketing: Game plan
  – This sets out the detailed requirements, evaluation criteria and evidence required for the overall game strategy and portfolio, and for individual game plans;
- Chapter 19 – Marketing: Player access plan
  – This sets out the detailed requirements, evaluation criteria and evidence required relating to the methods by which players will be able to access the Lottery, and includes the mix of established and new channels, and channel management;
- Chapter 20 – Marketing: Communications plan
  – This sets out the detailed requirements, evaluation criteria and evidence required relating to the Bidder's marketing communications plans, including advertising and promotions, public relations and broadcasting; and
- Chapter 21 – Marketing: Resource and sales plan
  – This sets out the detailed requirements, evaluation criteria and evidence required relating to the Bidder's marketing resources, marketing investment spend, and its forecast sales together with the risks involved in its plan and its contingency plans.

16.2 Overall evaluation criteria

The marketing requirements are designed to test whether each Bidder's proposals provide credibility for the Principal Forecast submitted in chapter 14. The Commission will be assessing whether there is a direct link between individual elements of the strategy and the sales forecast in order to understand the relationships and drivers that underpin the forecast returns to good causes.

The Commission is seeking to test four key marketing drivers for sales and hence returns to good causes. Each Bidder should therefore demonstrate credible proposals for those key drivers:

- Games with strong, sustainable player appeal in an evolving technological, consumer/player and competitive environment, supported by evidence of such player appeal, including primary and secondary research where appropriate;
- Easy, convenient access for players, according to the channel preferences of the different target player segments, including taking advantage of new technology channels;
- Marketing communications that are compelling and likely to motivate consumers, and, in particular, a central brand communications idea that demonstrates appeal and versatility across games, channels and player segments; and
- A strong, credible vision and strategic thrust that responds to the evolving technological, player and competitive environment and that links the plans together. The elements of the plans should fit together and support each other, both vertically, (i.e. from strategic thrust to plans to individual proposals), and horizontally, (i.e. within each plan and across plans).

The plans should also demonstrate certain general qualities:

- Grounding in an understanding of the Lottery – the plans should demonstrate a solid understanding of the Lottery environment, including player behaviour, game dynamics, technology, competition, access channels, media, regulation, and the likely trends in these over the Licence Period;

- Balance of core and innovation – each Bidder must decide upon the balance between maximising the potential of the existing core business and introducing new games, channels and communications. The rationale for its choice should be clearly explained. Each Bidder should also show how it will take advantage of new game, channel and communications opportunities provided by technological and consumer developments;
- Deliverability – each Bidder should identify and make realistic proposals for what is required to deliver the plans, in terms of game design, channel management, marketing communications, resources and marketing personnel; and
- Robustness – plans should be robust, in terms of their ability to adapt to changes in the environment. Each Bidder should also show that it understands the risks and has a strategy to manage them.

16.3 Quality of plans

The ITA sets out the evidence required in a way that will assist each Bidder to respond effectively. The quality of the thinking and presentation of the plans will be an important element in the evaluation. Plans must be:

- Credible, i.e. supported where appropriate by data and research (primary and secondary), grounded in reality and within the bounds of believability;
- Rigorous, i.e. structured, comprehensive, logical and well thought through;
- Robust, i.e. able to withstand sustained challenge and scrutiny from a number of angles;
- Insightful, i.e. display understanding, creativity and synthesis of disparate sources; and
- Clear, i.e. easy to understand with the links between plans and proposals clearly flagged.

16.4 Current situation

In a number of areas of the marketing requirements, the ITA asks each Bidder to provide an assessment of the current situation of the Lottery. The Commission is not seeking a detailed analysis, but rather for this assessment to act as an informed starting point for the basis for each Bidder’s proposed plans in that area. Where a Bidder proposes to make no changes, it must say so, and why; where it will make changes, it must state clearly what they are and why, linked to its review.

16.5 Market evolution, vision and strategic thrust

The Commission recognises that the Lottery market – technology, consumer/player behaviour and competition – may well change significantly over the 10 years of the Licence. Technology, in particular, has the potential to change Lottery games, channels, communications and economics. Section 17.2 asks each Bidder to give its point of view on this evolution and the implications for the Lottery.

Section 17.2 also seeks each Bidder’s vision of the place of the Lottery in this future environment, and its strategic thrust and plans for achieving the vision. By strategic thrust, the Commission is referring to the central, directional idea that will deliver this vision, and integrates all the individual plans and proposals.

Each Bidder is encouraged to provide any supporting work it has done into the evolution of technology, consumer/player behaviour and competition, such as expert opinion, future scenarios, and analysis of the economics of emerging channels in an appendix to its response. This is not a requirement but would be helpful to the Commission in understanding the basis for each Bidder’s thinking.

16.6 Uncertainty of forecasts

The Commission recognises that it is increasingly difficult to predict technology, consumer/player behaviour and competition in the later years of the Licence Period. It has, therefore, made the distinction between years 1-3 of the Licence, where more detail on plans is required, and years 4-10 where less detail is required.

In its plans for years 1-3, each Bidder must show clearly the changes it will make to the current games, channels and communications and to provide detailed support for its assumptions on the impact that its plans will have on sales and returns to good causes.

In its plans for years 4-10, each Bidder must give broader estimates of such things as channel mix, media plans, and sales by game/channel. Each Bidder is required to, and must only, submit one Principal Forecast. However, each Bidder may indicate the key drivers of, and the range of uncertainty it perceives around, this forecast.

16.7 Supporting evidence

The Commission will be assessing supporting evidence for each Bidder's key assumptions and plan estimates, wherever practicable. For major initiatives, i.e. games and communications planned for years 1-3, each Bidder must provide primary research evidence (quantitative and/or qualitative) of player appeal/intention to purchase. For other initiatives, and particularly for initiatives in years 4-10, each Bidder should provide secondary research, such as expert opinion or qualitative consumer insight, where appropriate.

When referring to primary research, the Commission is referring to tailored research that directly supports the specific recommended proposition. Secondary research refers to indirect supporting evidence that helps justify the case for the recommended proposition, e.g. comparable performance of other lotteries.

In order to assist Bidders, the Commission has assembled a range of information in the data room. This includes consumer segmentation research, information on the performance of current Lottery games, consumer-purchasing behaviour, and the performance of the existing Lottery retail network (see Appendix D for a summary of the information contained in the data room).

16.8 Level of detail

The Commission recognises the significant work involved in preparing professional marketing plans for the Lottery. Therefore, it has asked for substantial detail only where it deems it necessary.

For example, the ITA does not require: full detail of all scratchcard games; detailed media plans beyond years 1-3; detailed plans for optimising the retail network; or details of managing established channels where a Bidder proposes no significant change from the existing practice.

The Commission recognises that a Bidder may wish to propose games that use new technology and channels in ways that have not yet had to be evaluated within the current regulatory framework. Therefore, it encourages dialogue between the Commission and the Bidder on the regulatory implications of any new games that a Bidder is proposing.

16.9 Player protection

The requirements relating to player protection are tested separately, as a Required Standard. Full details of the requirements are given in chapter 8. Each Bidder should give its full proposals on player protection in that chapter, with cross-reference to its response to the relevant sections in chapters 17-21 where necessary. Each Bidder should note that its responses to chapters 17-21 must be consistent with its response to chapter 8 on player protection.

In particular, Bidders are required to provide details of how their proposals meet player protection requirements in relation to individual game proposals (18.4.3.6) and new channels (19.5.3.4.) since player protection is an integral part of the game design and channel management.

Chapter 17

Marketing – executive summary

17 Marketing – executive summary

17.1 Summary of plans

17.1.1 Requirement

Each Bidder must provide a summary of its overall plans for marketing the Lottery, with a rationale for why its plans will maximise returns to good causes. The summary must be presented in a way that enables the Commission to understand the Bidder's key proposals and how they fit together into a coherent and effective strategy.

For clarity, the Commission is seeking a short but incisive summary in response to this section.

17.1.2 Evaluation criteria

Since this is a summary of all the plans, the criteria for evaluation will be those referred to in section 16.2. The summary must clearly show how the plans address the criteria of:

- Games with a strong, sustainable player appeal;
- Easy, convenient access for players, according to the channel preferences of the different target player segments;
- Marketing communications to players that are compelling and motivating;
- A strong, credible strategic thrust that links the plans together and ultimately supports the rationale for maximising returns to good causes; and
- A marketing resource plan capable of delivering the marketing plans.

17.1.3 Evidence required

1. Current situation

   Each Bidder must summarise its view of current Lottery performance (game, player access, and communications); the potential for improving performance and the impact on sales; and the key strengths and issues with current performance that it addresses in its plans. The summary must be consistent with the proposals outlined in the game, player access and marketing communications plans.

2. Technology and market evolution

   Each Bidder must summarise its point of view on how the technological, player and competitive environment of the Lottery will change over the Licence Period. Each Bidder must also summarise its views on changes in the retail industry and communications media, as set out in chapters 19 and 20.

   Each Bidder must also explain how its technology solution, as described in chapter 12 will help it to exploit likely opportunities provided by technological and player evolution, e.g. through flexibility of features or openness of technical architecture.

3. Overview of individual plans

   Each Bidder must provide a summary of the key elements of its game, player access and marketing communications plans.

   Each Bidder must explain how the key elements, such as individual games, use of different channels, and focus on specific media, link to:

   - The evolution of technology and market, summarised in section 17.1.3.2;
   - The strategic thrust, explaining how the individual plans support it; and
   - Each other, including how they fit together into a coherent whole.

4. Marketing resources and investment
   Each Bidder must summarise its planned marketing investment over the Licence Period. This must include a table showing the main elements of investment such as retailer support, advertising and promotion and marketing resources.

   Each Bidder must explain major changes in the levels and components of investment over the licence period, such as major game launches, changes in channel mix, and changes in advertising spend.

   Each Bidder must summarise its planned marketing resources, including the balance between internal and external, and key marketing personnel.

5. Sales forecasts and risks
   Each Bidder must summarise the key elements of its sales forecast and relate this to the elements of its strategy and plans. This must include a summary of sales volume by type of game, channel, and player segment where appropriate, so the Commission can understand where sales will be generated.

   Each Bidder must summarise the key risks it sees in the plan, the effect the risks may have on sales and other aspects of the Lottery business, and its contingency plans for handling these risks.

17.2 Vision for the Lottery

17.2.1 Introduction

This section asks each Bidder to provide a compelling vision of the future Lottery, supported by an explanation of how the Bidder will progressively evolve the Lottery over the Licence Period and hence maximise returns to good causes. Rather than seeking to summarise other sections, each Bidder's response to this section must set out the ideas and philosophy that underpin the entirety of its plans.

17.2.2 Requirement

Each Bidder must explain its vision for the future of the Lottery upon which the rest of its plans are based. Using the current Lottery as a starting point for its response, each Bidder must identify the key trends and driving forces that will affect the Lottery, and discuss their implications for the future. These thoughts must then be drawn together into a vision for the Lottery, supported by the strategic thrusts that will underpin its successful delivery.

17.2.3 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- Whether the vision is compelling, credible and appears capable of realising the full potential of the Lottery and so maximising returns to good causes;
- Robustness and realism of the strategy, and whether the plans underpinning the vision are sufficiently strong and comprehensive to ensure the realisation of the vision, particularly in the face of an evolving and increasingly competitive environment; and
- The logic of the thinking and supporting evidence for it. The Commission will be examining whether logical conclusions have been drawn from the evidence and the implications arising from those conclusions, and whether the strategic thrusts are coherent and comprehensive.

17.2.4 Evidence required

1. The present Lottery environment
   Each Bidder must provide its assessment of:

   - The current Lottery – the state of evolution of the Lottery, where it sits on its product life cycle, its role within UK society, who plays and why they do so;
   - Consumers – attitudes towards gaming/gambling in general and the Lottery in particular;
   - The competitive environment – the growth of competition, e.g. online gambling, cross-border lotteries, casinos and sports betting, and how these impact on the Lottery;
   - Technology – the technologies that are already available to the Lottery, and how they are influencing player experience and hence the way people play the Lottery;
   - Regulation – the current Lottery regulatory framework and the issues and opportunities arising; and
   - 2012 Olympic and Paralympic Games – the benefits and risks associated with the Lottery's support for the staging of the 2012 Games.

2. Key trends shaping the future
   Each Bidder must identify what it believes to be the most important trends that will shape the future of the Lottery. Trends must be identified across the following three categories:

   - Consumers/players – including the key social and demographic trends that will influence the future potential of the Lottery;
   - Competition – including the competitive threats to the Lottery in its current form and the strengths and weaknesses of different forms of competition; and
   - Technology – including those new technologies that are likely to emerge over the period 2009 2019, the point at which they will achieve mainstream adoption and the potential benefits they might offer. To the extent that a Bidder may have commissioned research, it is requested to attach it as an appendix to its response.

3. Implications for the Lottery
   Given the trends identified above, each Bidder must describe the possibilities and implications arising for the Lottery, focusing on the areas that are most relevant to its proposals. In terms of the three areas of consumer/players, competition and technology, each Bidder may want to consider the following issues, although should note that these points are provided for guidance only:

   - Consumers/players – each Bidder may wish to consider the ways in which the player mix will change, where the real growth potential exists, where the current volumes are most at risk, and the drivers underlying those changes;
   - Competition – each Bidder may wish to consider how the Lottery could, and should, respond to the principal opportunities and threats; and
   - Technology – each Bidder may wish to consider the ways in which emerging technology platforms could or should be deployed in order to benefit the Lottery, and the ways in which new player experiences could be delivered, and the player segments that these might apply to. Technologies that a Bidder may want to consider include mobile telephones, wireless/broadband, Internet, smartcards and interactive television.

   Lottery benefits to consider might include:

   - Player registration – fewer unclaimed prizes, self-service ticket purchase;
   - Rich content – more engaging and interactive player experiences (infotainment);
   - Player services – facilitation of syndicate play, electronic receipt of small prizes, automated/remote play, loyalty schemes;
   - Monitoring and control of excessive play;
   - Customer relationship management – better targeted, more timely communication with players, cross-promotion and offers from other brands;
   - Accessibility – easy access to games from any location at any time; and
   - Costs – potentially lower costs of game distribution and marketing via emerging technology.

Some implications to consider might include:

- Financing and risk sharing in relation to new technology;
- Ownership of player databases and marketing rights;
- Ownership of games/game content and supplier/operator balance;
- Balance of power between operator/third party distributors and retailers;
- Economics of emerging technology compared to established channels;
- The conflation of game, channel and communication; and
- Regulatory issues arising from the future Lottery environment.

The critical success factors for the Lottery to be considered might include:

- How the Lottery will remain relevant and attractive in the face of possible increased and fragmented competing opportunities for players; and
- The growth imperatives and strategic choices that the Lottery could face.

4. A vision for the Lottery

Each Bidder must provide a compelling description of its vision for the Lottery. This must seek to maximise returns to good causes, whilst ensuring propriety and player protection. This might be expressed from a number of perspectives; listed below are some illustrative questions that each Bidder might find helpful, (although a Bidder need not respond in that order nor restrict itself to answering only those questions):

- Player perspective – What is the Lottery promising? Who will play, what will the experience be like and what will they get out of it? Why would they play the Lottery in preference to alternatives? What will people think about/say about the Lottery?
- Business perspective – What is the business model and economics? What sort of relationship would it have with the regulator? How would the Lottery be viewed by the media and business in general?
- Operator perspective – At the end of the Licence Period, what will have been achieved? What key elements and business approaches have helped deliver success? What milestones have been hit during the course of the third Licence Period?

5. Strategic thrusts

Each Bidder must provide a summary of the strategic thrusts that would drive the successful realisation of its vision for the Lottery. A strategic thrust is the central, directional idea that translates the vision into action, and integrates all the individual plans and proposals. The Commission is seeking explicit, specific strategic statements that explain the rationale for how each Bidder's vision for the Lottery of the future would be realised.

These strategic thrusts must take a position on considerations such as:

- The optimum balance between evolution of core Lottery games and creation of new games/game types;
- The emphasis on existing versus new players, and between broad-range games with universal appeal and niche games targeted at selected player segments;
- The orientation towards evolution of new channels and exploitation of new technologies, (e.g. leading edge, fast-follower);
- The approach, throughout the course of the Licence Period, towards transitioning from existing to new Lottery technology;
- The use of, and relationship with, third parties including for games, player access and network provision;
- The orientation of the brand positioning and communication strategy; and
- The business model, including economics and prime sources of value creation (in terms of good causes and operator profit).

Chapter 18

Game plan

18 Game plan

18.1 Introduction

This section sets out the requirements, evaluation criteria and evidence required in support of Bidders' game plans. In their response, Bidders must set out their strategy, proposed game portfolio, details of individual games or class of game, and the forecast sales from each game. Each Bidder must deal with all major draw-based games separately. However, scratchcard games and Interactive Instant Win-type games can each be considered as single game classes.

18.2 Current situation and future environment

18.2.1 Requirement

Each Bidder must provide an analysis of the performance of the current Lottery games, with reference to player segments. Each Bidder must also provide an assessment of the key trends that it believes will affect the future evolution of the game portfolio.

18.2.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- Understanding and analysis of current game performance and the key technological and consumer/player trends. The analysis should be supported by credible evidence; this may include evidence provided within the data room, e.g. segmentation analysis and historic sales performance data;
- The level of insight demonstrated in the Bidder's assessment of the current Lottery and the implications for the future Lottery; and
- The way in which the implications identified have been appropriately translated into the Bidder's game plan proposals.

18.2.3 Evidence required

1. Current game performance

   Each Bidder must provide an analysis of the current performance of the Lottery games. This must include a diagnostic analysis of each game or class of game using relevant available information as supporting evidence. A Bidder may include some or all of the following analyses:

   - Sales trends, including sales by game over time, and particularly incremental sales contribution of games over time;
   - Consumer penetration and weight and frequency of purchase by game, over time;
   - The contribution to sales performance of the current prize structures and overall prize fund levels, and their associated implications;
   - The fit of the current portfolio to consumer segments;
   - The evolution and current breadth of the game portfolio; and
   - The implications that can be drawn from this and the linkage to the Bidder's proposed game plan and strategy.

   The Commission is providing further information in a number of areas in the data room. Bidders may wish to use this performance data to support their analysis. Appendix D contains a summary of the information contained in the data room.

2. Players

   Each Bidder must provide an assessment of current and likely future consumer/player behaviour in the Lottery market. The Commission will provide up-to-date segmentation research in the data room that Bidders may wish to use as the foundation for this assessment. Alternatively, or in addition, each Bidder is free to use any proprietary research it has commissioned.

   The analysis must include a commentary on the consumer needs that drive purchase behaviour in the market, based on an analysis and interpretation of the main consumer segments.

   Each Bidder must provide an assessment of the segments where it believes the future game focus must be placed and the reasons for this, and provide a point of view on how these segments may change over time given changing consumer trends (demographic, socio-economic, behavioural etc.).

3. Game play styles
   Each Bidder is required to provide a commentary on how it believes game play styles will evolve over the period of the Licence. Each Bidder must provide demographic, behavioural and/or technological evidence, where available to support its point of view, and an assessment of any potential barriers to adoption in the Lottery sector.

   Each Bidder must also highlight any regulatory issues that may arise as a result of these emerging new play styles.

4. Technology
   Each Bidder must provide an assessment of how technology is currently utilised within the existing Lottery game portfolio, and how existing usage compares to wider consumer adoption outside of the Lottery. In relation to existing Lottery playing platforms (such as the Internet or mobile phones), each Bidder must also highlight any factors it believes currently act as a barrier to wider usage by Lottery players.

   Each Bidder must identify the relevant technology platforms that it believes will be of greatest potential to its proposed game plan, how these platforms fit with the identified consumer segments, and a supported point of view on the relative likelihood of their timing and integration into the Lottery game portfolio.

18.3 Game strategy and portfolio

18.3.1 Requirement

Each Bidder must explain its overall game strategy, including the rationale for how it intends to maximise returns to good causes. This must incorporate a clear recommendation on the breadth and evolution of the game portfolio.

Of particular importance, is each Bidder's planned evolution of its game portfolio over the Licence Period so that it: remains competitive versus gaming competition; makes best use of changes in player behaviour; and best exploits the development of channels based on new technology. For years 1-3 of the Licence Period, the evolution must be set out in detail, for years 4-10 it must be in broad terms.

The strategy must encompass: the principles which have acted as the framework for the individual plans; the major consumer needs the game plan will seek to fulfill; a summary of the key game plans and their forecast volumes; and a clear rationale and outline for the proposed game portfolio, including a summary on the interrelationship and level of cannibalisation between the various games within the portfolio.

18.3.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- The potential of the game strategy and portfolio – whether the strategy is credible, likely to deliver the forecast sales, and is realistic about assumptions on incremental sales and cannibalisation;
- Consumer coverage and clarity – whether the recommended game portfolio is optimally sized to exploit the available market opportunities, and whether consumers will understand the role of each game within the portfolio;
- Innovation and technology fit – whether the game strategy and portfolio appropriately exploits relevant new technology platforms;
- Competitive edge – how the game portfolio is robust enough to withstand increasing competitive pressure from other forms of gaming;
- Commercial efficiency – whether the recommended breadth of the game portfolio maximises returns to good causes whilst optimising coverage of player segments; and
- Risk – whether there is a supportable balance between maximising returns from existing games and generating incremental returns from new games, and whether there is sufficient evidence to support the implementation assumptions for the proposed new game ideas.

18.3.3 Evidence required

1. Overall strategy
   Each Bidder must describe its game strategy, including the guiding principles that have shaped the plans, the headline game proposals, and the rationale behind the strategy including the linkage to their analysis of the current and future market and consumer and technological opportunities. Within this, each Bidder should state its intentions and rationale with regard to future participation in EuroMillions (see section 5.4 for further details on EuroMillions).

2. Proposed portfolio
   Each Bidder must describe its game portfolio, showing how it will evolve over the Licence Period. The proposed portfolio must be supported by a clear rationale which highlights the commercial and strategic logic behind the breadth of the portfolio, the rationale for the balance between managing the existing core games and introducing new games, the distinctive consumer benefit of each game, and how the portfolio will cover the different player segments.

   A diagrammatic summary must be provided which shows by game: the game name; the consumer insight behind the game; the game proposition and consumer benefit; consumer segment(s) being targeted; prize structure, (numbers of prizes and probabilities of winning); and overall prize payout (percentage return to players); any phasing if relevant; and expected total target sales over the Licence Period. To clarify, for years 1-3 of the Licence Period, the above evidence must be given in detail; for years 4-10, it must be given in broad terms, with details only where relevant.

3. Source of volume
   Each Bidder must provide a source of volume analysis for the proposed game portfolio, including a volume build chart showing the sales generated by each game each year. It must clearly identify the level of incremental sales and to what extent that Bidder is assuming that volume is cannibalised for each game over time. For years 1-3 of the Licence Period, the above evidence must be given in detail; for years 4-10, it must be given in broad terms.

4. Use of technology
   Each Bidder must demonstrate how its game strategy, portfolio and technology solution makes effective use of technology evolution, explaining why it has chosen a particular technology or channel for specific parts of its portfolio, how it sees the benefits and barriers of different technologies for different games, what its assumptions are on competition between technologies and channels for a game (particularly the main draw-based game), and therefore, how it has arrived at its forecast of sales by technology/channel.

5. Game development and use of third parties
   Each Bidder must describe how, if at all, it plans to use third parties, including Consortium Members, for development of new games. The description must include those parts of the portfolio for which it would use third parties and why, how the process would work, (including selection of third parties, whether co-operative or arms-length development etc.), financial arrangements, and use of proprietary technology.

6. Independent Section 6 licensees
   Each Bidder must provide an outline of its policy and plans for Section 6 licence(s). This includes;

   - Its approach to the use of independent Section 6 licensees;
   - How it intends to encourage third parties to apply for Section 6 licences and the procedures it will use to evaluate proposals made to it by third parties; and
   - Any existing plans for the use of independent Section 6 licensees, including details of those proposed arrangements.

18.4 Individual games

18.4.1 Requirement

Each Bidder is required to provide a detailed summary of each game or class of game. This must incorporate all key information about: how to play the game; the consumer appeal of the game with supporting evidence; prize payout ratios; prize structures (including where relevant expected level of roll-overs); and the volume expectations for the game with supporting evidence. In the event that a Bidder is awarded the Licence, it should note that in years 1-3, the Commission will have particular regard to the proposals set out in its Bid and would expect that the Bidder would develop its game portfolio in line with those proposals and that it would be able to justify any variance.

Where a Bidder proposes to introduce Superdraw, or other promotional funding activity into a specific game, it should note that funding must be provided for within the proposed payout ratios for the relevant game. A Bidder that intends to use such activity will be required, during the Licence Period, to outline its Superdraw or other promotional strategy on an annual basis, as part of its annual sales plan.

Each Bidder will be expected to include details of dedicated Olympic Lottery games to fulfil the Lottery's commitment to support the staging of the London 2012 Olympic Games. The promotion and licensing of these games is subject to the same statutory and regulatory requirements as other Lottery games. The Current Operator estimates the following profile of contributions to the OLDF:

Table 8. Estimated contributions to the OLDF (financial years)

Year	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
Contribution (£m)	14	96	113	125	115	125	124	37

Source: DCMS Freedom of Information Case no. 23744, available at: www.culture.gov.uk

For the purposes of structuring their Bids, Bidders should assume that these estimated targets are met, so that 47 per cent of the total commitment of £750 million will have been delivered up to the end of the current licence period. The remaining £401 million is to be delivered from the beginning of the Licence Period up to the start of the 2012 Games.

Section 5.5 provides further detail on the use of intellectual property relating to the 2012 Games, and the associated guidance that Bidders must take into account when structuring their Bids.

Responses to this section should exclude the communication support and retail access details relevant to each game, which must be covered in the responses to the communications and retail access sections of the marketing requirements.

18.4.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- Evidence of sustainable player appeal including whether the game:
  - Has sufficient inherent appeal to justify the corresponding sales forecasts, backed up by robust, credible market research;
  - Is meeting a real and distinctive consumer need and targeted at the appropriate consumer segment(s); and
  - Is sustainable over its proposed life;
- Commercial efficiency in terms of whether a game justifies its role in the portfolio, contributing appropriately to sales and returns to good causes rather than simply substituting sales from other games and further complicating the portfolio;
- Practicality, including whether:
  - The game is feasible to implement;
  - It is credible that the game can be successfully operated in the way proposed;
  - The assumptions for the game are sufficiently well supported by evidence, whether data led and/or qualitative assessments; and
  - The game makes effective use of the technology capabilities available, and whether the game is delivered and implemented effectively within the technology solution;
- Brand fit – whether the proposed games are consistent with the Bidder's recommended brand positioning; and
- Regulatory environment – whether the games are acceptable within the regulatory environment.

18.4.3 Evidence required

1. Games in years 1-3

   For games in years 1-3 of the Licence Period, each Bidder is required, for each type of game, to outline the play mechanic, proposition, delivery mechanism, prize payout ratios, prize structure, (including expected rate of rollovers), price, game name, consumer rationale and benefit, and target player segment. Each Bidder should provide a summary of its strategy and its key drivers for each relevant game, and clearly indicate those games it intends to designate as Olympic Lottery games.

   Each Bidder proposing to introduce Superdraw or other promotional funding activity into a specific game must outline the proposed extent and frequency of the activity and the estimated level of funding required.

   Forecasts of volume and prize payout, by year, must be included, showing both absolute and incremental sales volume, linked to the overall source of volume analysis in section 18.3.3.3. Each Bidder must provide, wherever relevant and particularly on games which account for a substantial proportion of total sales, primary research as supporting evidence for the consumer rationale and sales estimates for each type of game.

2. Games in years 4-10

   For games introduced in years 4-10 of the Licence Period, each Bidder must describe, for each game, the proposed game platform or delivery mechanism, play mechanic, likely prize structure and price, consumer rationale and benefit, and target player segment.

   Each Bidder must also forecast the sales volume by year. Sales by year can be based on broad assumptions about volume build-up. There must be explicit assumptions on the expected level of cannibalisation.

3. Games based on new technology
For games which involve the adoption of new technologies, each Bidder must outline the assumptions it has made on the availability, and the target consumer adoption, of such technologies, its rationale (together with supporting evidence where possible) for these assumptions, its reasoning for why the technology meets the relevant consumer need and why it improves the player experience, and a summary of any substantive implications of such games to other parts of the commercial operation (e.g. retailer and sales force network and overall margin).

4. Game delivery and technology
Each Bidder must explain how the technology solution, described in chapter 12, is used to deliver each game. Where appropriate, the explanation need only refer to elements of chapter 12 rather than repeat them.

The explanation need only be in sufficient detail to satisfy the Commission that the Bidder is clear on the technical aspects of delivering the game, has identified any particular issues, and has a link between the Technology Operation and the game plan.

5. Supporting evidence
Each Bidder must provide evidence supporting the potential of its proposed games. Such evidence will be helpful to the Commission in assessing the credibility of the individual game plans. The evidence may be of three kinds:

- Primary research (required for major game initiatives in years 1-3) – the evaluation must provide quantitative measures of player appeal and intention to purchase supported by qualitative diagnostic evidence where relevant;
- Secondary research (optional) – for example the success of a game in another lottery. Here, it would be helpful if, in addition to its rationale for introducing it to the Lottery, each Bidder can provide game details, sales data, and player segmentation data from the place of origin of the game, so that the Commission can judge for itself if the game could be successful in the UK; and
- In-market data (optional) – for example trial of new games within a discrete geographic region. A Bidder would need to explain its interpretation of any test-market data as a predictor of national volume.

6. Regulation and player protection
For significant proposed new games, each Bidder must provide supporting justification for the game's ability to meet the regulatory guidelines. This includes supporting justification that the game meets the appropriate definition of what constitutes a lottery (whether simple or complex), that the game does not encourage excessive play, and that the game does not encourage underage play.

The Commission recognises that a Bidder may wish to propose games that use new technology and channels in ways that have not yet had to be evaluated within the current regulatory framework. In such circumstances, the Commission encourages Bidders to enter into dialogue with it on the regulatory implications of any new games proposed, in advance of submitting Bids.

Player access plan

Chapter 19

19 Player access plan

19.1 Introduction

In the player access plan, each Bidder is required to set out its plans for providing players with access to play the Lottery games. Player access can be through established retail channels, e.g. confectioners, tobacconists and newsagents (CTN), multiple grocery, petrol stations, independent kiosks and new channels, e.g. Internet, mobile phones, digital television, and all related hybrids. The Commission expects that these new channels/delivery mechanisms will be available in increasingly sophisticated and consumer acceptable forms during the Licence Period.

19.2 Channel environment

19.2.1 Requirement

Each Bidder must provide an analysis of how it sees the likely trends in access channels over the Licence Period, and how this will impact the Lottery in terms of opportunities and threats. The analysis must cover the key trends in both established retail channels and in new channels.

19.2.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- Understanding and analysis – whether the Bidder has understood the critical technological, economic, cultural and consumer trends, whether the analysis is supported by credible evidence, and, in particular, whether the impact of new channels and their potential adoption has been factored appropriately into the thinking;
- Insight and imagination – whether the Bidder has been insightful in its assessment of the access environment and its view of the implications for the Lottery; and
- Translation into player access plan – whether the key implications identified here have been appropriately translated into the rest of the player access proposals.

19.2.3 Evidence required

1. Established retail channels

   Each Bidder must provide a brief assessment of likely trends in established retail channels e.g. CTN, multiple grocery, petrol stations, off-licences, independent kiosks, from now until the end of the Licence Period, and the implications for the Lottery.

   The Commission recognises that the trends are more easily identifiable for years 1-3 of the Licence Period and become progressively more difficult in years 4-10. The analysis of retail trends may include:

   - The likely trends in the numbers of stores, and percentage of all retail sales, accounted for by different retail sectors and the drivers of these trends;
   - Changes in technology or consumer shopping habits that will change the capability, interest and competitiveness of different retail sectors in selling Lottery tickets. An example would be the deployment of the EPOS channel through major multiples;
   - The likely evolution of these trends (speed, extent), over the Licence Period, taking account of technology, required retailer action and player acceptance; and
   - The broad implications for the Lottery, in terms of channel mix, player access and experience, economics and retailer support. This analysis must be linked to the sections on channel strategy/mix, channel management and marketing investment.

2. New channels
Each Bidder must provide an assessment of potential new channels and delivery mechanisms likely to be available and the opportunities for the Lottery. New channels include the Internet, mobile phones, and interactive television and all related hybrids.

Whilst the Commission recognises that a precise analysis is not possible, new channels may have profound implications for the Lottery in terms of channel mix, player experience and economics within the Licence Period, and each Bidder is required to make a well-informed assessment of their likely evolution.

A Bidder may wish to include:

- An explanation of each channel and how it might operate to provide Lottery games. This must be linked to the equivalent section in the game plan;
- The likely evolution of each channel, (speed, extent), over the Licence Period, taking account of technology, retailer required action, and player acceptance; and
- The broad implications for the Lottery, in terms of channel mix, player access and experience, economics and channel support. This assessment must be linked to the sections on channel strategy/mix, channel management and marketing investment.

19.3 Channel strategy/mix

19.3.1 Requirement

Each Bidder must provide an assessment of the current retail channels used by the Lottery, including how effectively they are used to provide player access, and the key changes the Bidder would make.

Each Bidder is required to explain its channel strategy and mix, including why it thinks that it makes best use of available channels to maximise returns to good causes.

Of particular importance, is the Bidder's planned evolution of its channel mix over the Licence Period so that it makes best use of changes in established channels, and the growth of channels based on new technology. For years 1-3 of the Licence Period, the evolution must be set out in detail; for years 4-10 it must be in broad terms.

Each Bidder should note that the Draft Licence contains a minimum requirement to locate at least one retail outlet in every postcode district, (being a postcode e.g. RH15 or W4 with more than 2,000 residents from the start of the Licence Period). Each retail outlet must sell both draw-based games (one of which must be any main game proposed, e.g. Saturday Lotto), and scratchcard games. This requirement may be reviewed by the Commission during the Licence Period to ascertain its suitability and with a view to implementing any changes after year five of the Licence Period. The Draft Licence also contains in condition 8.4 (a) a requirement that distributor selection criteria be consistent with ensuring reasonable community access. Bidders are encouraged to outline any plans they have for ensuring such access.

In addition, each Bidder must specify the minimum number of retail outlets selling draw-based games and scratchcard games that it is willing to commit to for each year over the Licence Period, for inclusion in the Licence. This requirement may be reviewed by the Commission during the Licence Period to ascertain its suitability and with a view to implementing any changes after year five of the Licence Period.

19.3.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- Availability of access – whether the plan provides each of the target segments with easy access to games, taking account of their behaviour and channel preferences; and whether the proposals for access via new channels are likely to meet player expectations of ease of access;
- Commercial efficiency – whether the channel mix is broadly optimised in terms of coverage and mix between channel types; whether the mix between established and new channels has a credible relationship to the forecast mix of sales by channels; and whether the Bidder is realistic about competition and cannibalisation between channels;
- Evolution and new technology – whether the plan fits with, and exploits the likely evolution of channels, and in particular, whether the plan exploits the potential of new technology channels based on well-informed and realistic assessments of technological capability and consumer adoption; and
- Channel transition – whether the plan manages the potential changes in channel mix, including changes in the number of retailers of different types, any ramp-up of new channels, and the changes in resources.

19.3.3 Evidence required

1. Current channel mix

   Each Bidder must provide its assessment of the current Lottery retail presence. A Bidder may wish to include a commentary on:

   - How effectively the current channel mix makes use of the available channels;
   - Its view on players' perspective regarding the channels available, referring to player segments. This analysis may be based on the segmentation research provided by the Commission or on the Bidder's own quantitative or qualitative research; and
   - The retail presence relative to changes taking place in the buying habits of consumers generally, and particularly Lottery players.

2. Planned channel strategy and mix

   Each Bidder must provide an explanation of its planned channel strategy and mix, including its rationale for the strategy, the evolution of the mix over time, how the strategy links to the game, marketing and communications plans, and how it intends to exploit changes in established retail channels, new channels and delivery mechanisms.

   The strategy and mix must be linked to the target player segments of the game plan and any evidence on the usage of different channels by different player segments.

3. Established channels

   Each Bidder must explain how its plan takes account of the trends identified in the previous section 19.2, and the consequences for its channel mix, support and cost structures. Each Bidder must also describe how it will manage any reduction in volume through channels that it believes will become less significant. This analysis must be set out in detail for years 1-3 of the plan and in more general terms for years 4-10.

4. Minimum number of retail outlets

   Each Bidder must specify the minimum number of retail outlets that it is willing to commit to providing for each year of years one to ten of the Licence Period. Bidders should note that this commitment will be included in the Licence.

   Bidders may also set out here any plans they have for ensuring reasonable community access.

5. New channels
   For each new channel, each Bidder must explain its assessment of:

   - The benefits of the channel, in terms of player access and experience, and game delivery, and what games it plans to use the channel for;
   - How it sees the channel being introduced and its likely evolution over the Licence Period;
   - How that channel will affect sales through other channels, given its characteristics and attraction to specific player segments;
   - How the Bidder will manage issues such as channel support, third party control and branding of channels; and
   - The rationale for not using available channels if relevant.

6. Analysis
   Each Bidder must give details, including supporting analysis where appropriate, of the:

   - Proposed number of outlets for established channels by type of retailer, (independent/multiple, or by CTN, forecourt, post office etc.) and sales rates (sales per outlet) by type of retailer by year, with an explanation of changes over the Licence Period;
   - Sales by channel (established and new) by year, and the rationale for any changes over the Licence Period, linked to the channel strategy and mix; and
   - Likely economics (support costs, third party payments, margin) of each channel, and costs/margin by year, linked to the financial plan.

19.4 Management of established retailers

19.4.1 Requirement

Each Bidder must provide a plan for managing established retail channels for years 1-3, plus a high-level description for years 4-10. The plan must clearly show the proposed support in terms of type, level of resources, organisation/management etc. Each Bidder must also show how the plan provides a level of support that is both cost-effective and motivates the retailers to maximise Lottery sales.

19.4.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- Adequacy of support – whether the plan provides support for established channels that is comprehensive in terms of coverage, adequate in terms of level of resources, and coherent in terms of how the elements fit together;
- Realism of the proposed financial arrangements – whether the financial arrangements match the characteristics of different retailer groups and how the Bidder plans to balance cost minimisation on the one hand, and adequate motivation to maximise sales on the other;
- Operational effectiveness and efficiency – how cost-effective the different aspects of support are, e.g. recruitment, control, sales force organisation and tasks etc; and
- Channel transition – whether there are robust plans for managing any change in mix of channels, in particular the reduction in volume through channels that the Bidder envisages becoming less significant.

19.4.3 Evidence required

Each Bidder must provide the following evidence to describe its proposed retailer management arrangements.

1. Retailer financial arrangements
   Each Bidder must outline its proposals for retailer commissions, distinguishing between different types of payments, e.g. commission, bonuses and other incentives, loans, charges for equipment etc. This information should be broken down by retailer type and accompanied by an explanation as to why that Bidder thinks that the level of retailer remuneration is appropriate. If relevant, each

Bidder must also describe the proposed financial and contractual arrangements in cases where it will be using retailers' own terminals (e.g. EPOS systems) and/or networks for delivering Lottery products. Bidders should note that retailer commissions may not be amended without the Commission's consent and that the proposals set out in the Bidder's response will be incorporated in the Draft Licence.

2. Retailer management
Each Bidder must describe its plans for managing retailers, distinguishing between different types of retailers, if appropriate. The management arrangements must cover:

- Proposals for terms of contract;
- Selection, including security checks, and de-selection including criteria that would trigger de-selection, (e.g. sales to underage players);
- Initial and continuing training;
- Retailer hotline and any other support arrangements;
- Monitoring of performance, and action for poor performance;
- Logistics, including supply of tickets and other materials, repair of terminals etc; and
- In-store display, exterior signage and other materials to be provided to retailers, and how the materials will be installed, maintained and controlled.

Each Bidder must describe its plans for managing any proposed change in mix of channels, in particular any reduction in volumes through types of retailer that the Bidder envisages becoming less significant.

3. EPOS
Each Bidder must describe any plans for developing EPOS solutions with retailers. This must include likely technical solution options, financial arrangements, player experience, customer relationship management, and constraints on evolution to meet new markets and technology.

The technology solution must link to that in chapter 12. Where appropriate, the explanation need only refer to elements of chapter 12 rather than repeat them. The explanation need only be in sufficient detail to satisfy the Commission that the Bidder is clear on the technical aspects of the EPOS proposals and has identified and is capable of resolving any particular issues.

4. Sales force support
Each Bidder must describe its plans for the sales force to support the retailers. The description must include:

- The approximate number of sales people, the number of retail outlets covered per sales person and the rationale for this number;
- The tasks to be performed by the sales force, and frequency of visit by type/size of retailer;
- Structure and management of the sales force;
- Indicative remuneration levels; and
- Training and monitoring of performance.

5. Cost structures
Each Bidder must give a breakdown of its planned costs for managing the established retailers, in total and by type of retailer. This must include any changes to costs from changes in delivery mechanism, such as EPOS. Figures must be clearly linked to the resource details given elsewhere in the marketing plans and to the business plan.

The breakdown must include retailer commissions and other payments, sales force support, logistics, retailer selection and training, and management overheads, and show the assumptions behind the figures.

6. Supporting evidence
   A Bidder is not required to put in place contractual arrangements with retailers but evidence supporting its ability to conclude arrangements should be provided, especially in respect of the major multiples.

   Each Bidder may, but is not required to, provide evidence of the analysis and modelling it has done to optimise the retailer network, both with the current mix, and with changes in mix over time.

19.5 Management of new channels

19.5.1 Requirement

Each Bidder must provide an outline plan for each of the new channels and delivery mechanisms that it intends to use over the Licence Period, and how it will manage them.

The Commission recognises that a detailed plan is not possible, but it expects each Bidder to have thought through the key issues, and have a realistic view of how it will manage the issues. This includes provision of games, channel support, third party control, and branding of channels.

19.5.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- Adequacy of support – whether the plan provides adequate support for new channels in terms of systems, support for third party network providers, player instructions and help etc. that fits with the channel requirements, proposed games and likely player behaviour;
- Transition and evolution – whether the Bidder has planned the appropriate resources for introducing the channel to players, whether the proposed support provides sufficient flexibility for evolving the channel to enable new games/formats and whether the technology solution is effective; and
- Consumer protection – whether the plans for avoidance of underage and excessive play, e.g. through registration/authentication and play controls are adequate to ensure consumer protection, and whether the level of player security is likely to reassure players and support the reputation of the Lottery.

19.5.3 Evidence required

Each Bidder must provide, for each channel that it is proposing to use, its plans for managing that channel. The plans must be in as much detail as is necessary to demonstrate understanding of the key aspects of channel management, and to demonstrate that the plans are credible in supporting the Bidder's ability to generate its forecast level of sales from that channel.

1. Channel mechanics and player experience
   Each Bidder must describe how each channel will function to deliver games to players, how players will interact with the channel, and the benefits and experience this will offer players. It must also describe how the channel fits with consumer/player behaviour, and the key technological and operational constraints to be overcome to maximise player acceptance.

   The description must be linked to the range of games proposed in the game plan and methods of marketing communications in the marketing and communications plan.

2. Channels and technology solution
   Each Bidder must explain how the technology solution described in chapter 12 is used to support each channel. Where appropriate, the explanation need only refer to elements of chapter 12 rather than repeat them.

   The explanation need only be in sufficient detail to satisfy the Commission that the Bidder is clear on the technical aspects of supporting each channel, has identified any particular issues, and has a link between the Technology Operation and the access plan. The explanation can be less specific for channels in years 4-10.

3. Contractual and financial arrangements
Each Bidder must explain what contractual/financial arrangements it plans, including:

- Open or exclusive arrangements with network providers and customer relationship owners;
- Payments for use of third party networks or equipment;
- Potential co-development, and arrangements for intellectual property rights and co-branding; and
- Other financial payments or incentives.

4. Player protection
Each Bidder must explain its arrangements for meeting requirements on underage and excessive play and for security of player-provided data. This may require specific plans for pre-registering players or for authenticating players at the point of play. The Bidder must provide evidence of how these problems can be solved with current technology, or a convincing argument that technology will evolve to provide a solution.

5. Player and channel support
For each channel, each Bidder must describe what support is likely to be needed for players, how it plans to provide it, and the resource implications. Examples of support may include game instructions delivered through the channel, customer help desks accessed via the channel and cancellation of registrations directly via the channel.

Each Bidder must describe the support it plans to give the channel provider, in terms of technical support, back-up systems and training.

The proposals for player and channel support must be clearly linked to the relevant parts of the game plan, marketing communications plan and marketing resources plan. This is of particular relevance where games will only be offered through selective channels, where elements of the games depend on the capability of the channel (e.g. interactivity) or where the communications are through the channel.

6. Cost structures
Each Bidder must give a breakdown of its planned costs for managing new channels, in total and by type of channel. This must include expected changes in costs over time as technology and volume through the channel develop. Figures must be clearly linked to the resource details given elsewhere in the marketing plans and to the business plan.

The breakdown must include fees to channel providers (e.g. mobile phone, interactive television), transaction costs for payments, fees to game and technology providers, player assistance (helpline etc.) and management overheads, and show the assumptions behind the figures.

7. Supporting evidence
Each Bidder must provide evidence that their proposals for new channels are viable, in terms of technological feasibility, player adoption, economics and attractiveness to third party providers. The evidence may include expert opinions, examples of how the technologies are already developing, analogies with other technologies or discussions with third party providers or suppliers, for example.

Chapter 20

Marketing communications plan

20 Marketing communications plan

20.1 Introduction

In the marketing communications plan, each Bidder is required to set out its plans for communicating to players, including its brand strategy, advertising and promotion, public relations and broadcasting.

20.2 Media and cultural environment

20.2.1 Requirement

Each Bidder must provide its view of the evolving media and consumer cultural environment, with an analysis of the implications for the Lottery over the Licence Period in terms of communication strategy, media mix and cost-effectiveness.

The analysis of the media and consumer cultural environment needs to consider how media, consumer culture and technology are influencing the way in which people consume media and interact with brands. The 2012 Olympic and Paralympic Games must specifically be considered in terms of the potential opportunities and challenges it could represent for the Lottery.

20.2.2 Evaluation criteria

The Commission will evaluate each Bidder’s response based on:

- Understanding and analysis – whether the Bidder has understood the critical media and cultural dynamics and trends, whether the analysis is supported by credible evidence, and whether the impact of new technology platforms and their potential adoption has been factored into the thinking;
- Insight and imagination – whether the Bidder has been insightful in its assessment of the marketing communications environment, and whether its view on the implications for the Lottery are coherent; and
- Translation into a marketing communications plan – whether the key implications identified here have been adequately translated into the rest of the player access proposals.

20.2.3 Evidence required

In the context of an assessment of the current media and consumer cultural environment, and any key trends identified, each Bidder must provide an assessment of the strategic implications for the Lottery. The Bidder must develop a point of view around potential future opportunities and challenges for the Lottery, driving out directional guidelines for the formulation of communications and media strategy. Each Bidder should make reference to any evidence as appropriate.

For clarity, the Commission is seeking a short but incisive summary in response to this section.

20.3 Brand communication strategy

20.3.1 Requirement

Each Bidder must provide a well-defined brand positioning and communication strategy, supported by research insights and evidence to justify the proposed strategy.

The brand positioning must set out a compelling and durable recommendation for the brand proposition, covering target market and competitive edge, with related brand architecture principles to inform execution across the proposed range of Lottery games.

The brand communication strategy must set out the key selling messages to consumers and retailers, together with creative illustrations of how those messages would be brought to life.

20.3.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- The appeal of the central creative idea – whether the communication idea is rooted in an incisive consumer insight, whether it is clearly defined by means of a central brand positioning recommendation, and whether it has been articulated in a way that is demonstrably impactful, appealing and motivating to target consumers; and
- The versatility of the central creative idea – whether the idea can be effectively adapted across different game types, channels and consumer segments in a way that is appealing and motivating to target consumers.

20.3.3 Evidence required

1. Brand analysis
   Each Bidder must provide a broad assessment of the Lottery's current brand status, drawing from evidence contained within the data room and any of its own research evidence. The analysis must identify the brand's key strengths and weaknesses amongst different consumer segments, and must distinguish between the brand's gaming and good causes aspects.

2. Brand positioning
   Each Bidder must provide a detailed proposal on core brand positioning, defining brand promise, rational and emotional benefits, target consumer definition, key consumer insight and competitive edge. Each Bidder must define the brand architecture principles whereby the core positioning is interpreted across the range of games in the game plan. Proposals must be referenced against brand barriers and bonds amongst different consumer segments from the earlier brand analysis, as well as being benchmarked against the current brand positioning.

3. Communication strategy
   Each Bidder must provide a definition of the key selling messages, (based on the brand positioning and launch/relaunch events around Lottery games), that would be used for different retailer and consumer types. The Bidder must then set out the central creative communication idea and demonstrate how this would be interpreted across a range of game types and channels. This must include the Lottery visual identity, (logo and names). If the Bidder proposes any change to the Lottery's visual identity, a rationale and supporting research will be required. It must be noted that the intention here is to illustrate how the brand would be brought to life in an appealing and impactful way, not to recommend a detailed creative solution across all media and game types.

4. Supporting evidence
   Each Bidder must provide primary research evidence amongst target consumers to indicate appeal for the overall brand positioning and how the brand is communicated on key game propositions.

   Where secondary evidence is used (e.g. performance data from other lotteries or indicative research), the source must be quoted and any calibrations or interpretations made explicit.

20.4 Marketing activity plan

20.4.1 Requirement

Each Bidder must provide a marketing activity plan for years 1-3, plus a high level summary for years 4-10. It must clearly specify choice of activity and level of investment behind each, together with a robust supporting rationale.

The activity plan must describe the high level principles by which media and activity types are selected and optimally balanced. Each Bidder must also display an understanding of how the cost-effectiveness of different media and marketing tools can be tracked and measured, leading to better optimised marketing investment.

Each Bidder should link its activity plan to the minimum marketing expenditure it proposes (see section 21.2.3.3 for further information).

20.4.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- The commercial efficiency of the marketing mix – whether media channels and marketing activities have been chosen in a way that will optimise return on investment, whether the proposed activities are sufficient to drive the consumer behaviour that will help deliver the sales volume forecast, and whether the plan balances activities in line with latest understanding on the effectiveness, mix and sequencing of different activities; and
- Exploitation of new technology – whether the Bidder has understood the possibilities offered by new technology platforms and proposed strong new ideas to exploit them in ways that will drive sales and whether the potential consumer benefits and cost-saving opportunities of emerging new media have been fully considered.

20.4.3 Evidence required

1. Marketing strategy
   Each Bidder must provide a statement of the objectives and principles driving the marketing plan, encompassing consumer and trade audiences. These principles must be justified in relation to the evolving media and consumer cultural environment, the brand positioning proposed and identified consumer media preferences.

2. Marketing plan (years 1-3)
   Each Bidder must provide a detailed plan of the amounts, timings and rationale for investing in different activities in years 1-3. The plan must be split by quarter and be allocated by each game or game type, and for all games combined where appropriate. Scratchcards should be considered a single game type.

   Each Bidder must cover:

   - Consumer-focused marketing activities:
     – Broadcast advertising (television, radio, press and outdoor advertising);
     – Broadcast TV programming;
     – Press and outdoor advertising;
     – Interactive (Internet, mobile phone);
     – Point-of-sale promotion; and
     – Direct marketing
   - Trade (retailer)-focused activities:
     – Communication (leaflet, Internet, press); and
     – Trade incentives
   - Other activities, for example:
     – Sponsorship and events; and
     – Public relations

     Please note that public relations and broadcast (programming) activity plans must be summarised within this section and then covered in more detail in sections 20.5 and 20.6 respectively.

     The Bidder must provide information about proposed methods for tracking and evaluating the performance of activities against plan, as well as key assumptions on media costs and inflation rates. In order to justify recommended expenditure levels, opinion from independent media auditors may be cited, as well as references to relevant benchmarks (e.g. other national UK power brands, other lotteries).

3. Minimum marketing expenditure
   Each Bidder should describe how this activity plan is reflected in the minimum marketing expenditure it is proposing (see section 21.2.3.3), in particular which parts of the activity plan and expenditure would comprise its minimum absolute amount or 'floor' and why, and which would be the elements which would comprise its percentage of sales, and why. Bidders should provide a summary table showing the marketing expenditure by activity that comprises its floor and its percentage of sales.

4. The 2012 Olympic and Paralympic Games
   Each Bidder must explain their marketing communications plan for Olympic Lottery games, setting out how they intend to maximise the impact of the opportunity.

5. Outline marketing plan (years 4-10)
   Each Bidder must provide a high level summary of plans years 4-10, by activity type and by year. Any new technology platforms must be identified, together with assumptions and rationale concerning their adoption by consumers. Their financial impact must also be considered, in terms of changes in cost per impact and the potential transformation of the economics of marketing/delivering Lottery games.

   Total investment must be detailed by year and by percentage spend on each activity type, with supporting evidence from independent media and marketing experts, where appropriate.

6. Economics
   Each Bidder must give a breakdown of the assumptions behind its costs for marketing communications, by type of communication. This must include expected changes in costs over time. Figures must be clearly linked to the marketing activity plan.

   The assumptions must include changes in the relative cost of different types of communications as general supply and demand change.

   In particular, each Bidder must provide its assumptions on the costs of direct communications to players through new channels.

7. Supporting evidence
   The media plan must be quality assured by an independent media auditor, and key assumptions regarding media costs and inflation rates, where these are different from the general inflation assumptions used for the business plan, must be specified.

20.5 Public relations

20.5.1 Requirement

Each Bidder must provide a robust and proactive public relations (PR) plan that is well integrated and embedded within the rest of the marketing activity plan.

Each Bidder must also provide evidence of how a reactive PR approach would operate, underpinned by an understanding of inherent Lottery PR issues and the opportunities and challenges they present.

Each Bidder must explain in broad terms how it intends to manage the PR agendas under its direct control, (i.e. the Lottery itself and the Bidder as Licensee), in a manner consistent with related PR agendas outside its direct control, (i.e. the Commission, distributors for the good causes and the NLPU).

20.5.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- PR plan effectiveness and preparedness – whether proactive plans capture the PR opportunities and have the capability to defuse any potential negative issues, and will the right people and mechanisms be in place to develop reactive plans;
- Whether the Bidder shows a good understanding of how it would manage the PR of the Lottery and its interrelationship with the various PR agendas of the Commission, the Bidder as Licensee, distributors for the good causes and the NLPU; and
- Whether the Bidder's proposed resource levels are sufficient for the proposed tasks.

20.5.3 Evidence required

1. Issue understanding and implications
   Each Bidder must provide an appraisal of the key PR risks and opportunities for the Lottery over the Licence Period, underpinned by an understanding of the key issues faced in the past. This must

include a summary of the types of issues that might arise, their implications for the Lottery, and headline strategies for dealing with them with evidence, (direct or indirect), to support recommended strategies. This must also include an appraisal of the implications of these issues for other key stakeholders, (i.e. the Commission, the Licensee and its shareholders, good causes, Government, and the NLPU) and how they would manage these interdependencies.

2. Proactive PR plan
   Each Bidder must provide a plan of the types of messages, activities and desired outcomes that would be proposed for years 1-3. This must include overall campaign ideas that are linked to the brand positioning, as well as specific examples of activities, with any indications of third party support. Each Bidder must also provide details of the processes and relationship management they would envisage adopting with key stakeholder groups such as the Commission, retailers, distribution bodies etc.

3. Reactive PR plan
   Each Bidder must provide an issue-based response mechanism. Based on the potential issues and flashpoints identified earlier, it must describe the procedures that would be invoked, together with details of the infrastructure, systems and key individuals required. The approach must be illustrated by examples of the issues that might arise and how they would be dealt with.

20.6 Broadcast (programming)

20.6.1 Requirement

Each Bidder must provide a credible plan of broadcast TV programming, including broadcasting the draws for any online games. This plan must be well integrated within the overall marketing activity plan. The Commission appreciates that the Bidder may not have a significant level of control over content in this area and therefore will take this into account when evaluating responses.

20.6.2 Evaluation criteria

The Commission will evaluate each Bidder’s response based on:

- Appeal – whether the broadcasting proposals are likely to appeal to Lottery players, particularly in the target segments and whether they might contribute to an increase in Lottery sales;
- Evolution – whether the proposals are based on recognition of how the broadcast environment is likely to evolve over the Licence Period; and
- Regulatory environment – whether the proposals comply with broadcast regulations and any specific Lottery restrictions.

20.6.3 Evidence required

1. Broadcast strategy
   Each Bidder must provide an overview of major ideas for programmes, with illustrations of key concepts and a supporting rationale that demonstrates viewer appeal and evidence of broadcaster buy-in.

2. Broadcast plan, years 1-3
   Each Bidder must provide a plan of proposed activities and expected outcome for years 1-3. This plan must include details of programme format and schedule, financial arrangements regarding broadcasting rights, expected audience and media impact.

3. Broadcast outline, years 4-10
   Each Bidder must indicate the types of new possibilities and opportunities it sees arising, and how it would exploit them, supported by a point of view on how the broadcast environment is likely to evolve, with reference to its response on the media and cultural environment, as well as to new technology platforms that are likely to be introduced and adopted. Against this evolving context, each Bidder must indicate the types of new possibilities and opportunities it sees arising, and how it would exploit them.

Chapter

21

Marketing resource and sales plan

21 Marketing resource and sales plan

21.1 Marketing resource plan

21.1.1 Requirement

Each Bidder must provide a marketing resource and sales plan that demonstrates the organisational capability to successfully deliver the entirety of the marketing plans.

The resource plan must focus on the elements of the organisation structure, people and management processes that are critical to the delivery of the marketing plans. Each Bidder must provide details of its proposed marketing and sales organisation, with the focus on those aspects not covered within the Bidder's response to section 10.4.

21.1.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- An understanding of the task – whether the Bidder has identified what is required to deliver the marketing and sales plan in terms of key roles, skills and management processes;
- The robustness of the proposed marketing and sales organisation – whether roles and responsibilities have been clearly defined and whether there is a sensible balance between internal management resource and outsourced agency resource; and
- The credibility of the team – whether key senior executives within the management team and/or agency teams have the relevant experience and track record.

21.1.3 Evidence required

1. Resourcing strategy
   Each Bidder must explain their resourcing strategy, outlining the objectives, key considerations and organising principles that have informed the design of the proposed marketing and sales organisation, resource selection (management and agency) and modus operandi. The strategy must define a balance between internal and external resource with supporting rationale. The strategy must explain how the marketing and sales organisation will be built in the Transition Period before the commencement of the Licence Period.

2. Proposed organisation
   Each Bidder must describe its proposed marketing and sales organisation, structure and key roles and responsibilities, including:

   - The fit of marketing and sales with the rest of the organisation;
   - Game design and management;
   - Channel management including:
     - Sales force and logistics;
     - Key account management;
     - Developing new technology channels; and
     - Retailer and third party contractual relationships;
   - Brand management:
     - Strategy; and
     - Operations;
   - External communication:
     - Advertising;
     - Promotions;
     - Sponsorship and events; and
     - PR;
   - Internal communication;
   - Market research (continuous and ad hoc); and
   - Trade marketing.

3. Management team credentials
   Each Bidder must provide details of their proposed marketing and sales management. Where a Bidder has already provided details in its response to chapter 10, it may refer to that, and need not repeat it here. The details should include:

   - A CV for each senior member of the marketing team, where currently nominated, appointed, or in place, setting out their qualifications and experience. Each Bidder must further describe the extent to which those individuals have been involved in formulating the Bid, the degree of commitment expressed by those individuals to seeing through the delivery of the Bid proposals and, where relevant, the recruitment and handover strategy for ensuring continuity between such individuals and any successors.
   - The key individual(s) responsible for ensuring continuity/handover of marketing plans until such time as a marketing director is appointed.
   - Where individuals are not in place, appointed or nominated, the Bidder must describe its recruitment strategy for filling these key positions.

   Each Bidder must highlight the level and nature of any Lottery or gaming experience that will exist within their proposed marketing and sales organisation.

4. Agency credentials
   Each Bidder must provide a description of the key agencies and the senior executives within those agencies who will work with the Bidder's team. This must include brief agency credentials and CVs for key individuals, focusing on relevant experience. Each Bidder must also explain the rationale for choosing the agencies relative to the task that needs doing.

5. Modus operandi
   Each Bidder must explain, at a high level, how the marketing and sales organisation will operate. This must include commentary on approaches to:

   - Formulation of marketing strategy – the steps and key considerations that will inform how strategy is devised;
   - Game/channel innovation – the principles and techniques that will underpin the creation, development and launch of new games and ways to play, and, in broad terms the process that will be adopted for developing, testing and launching new games. This must include the use of, and relationship with, third parties for game ideas and technology;
   - Marketing effectiveness – the techniques and measures that will be used to monitor the effectiveness of marketing activity;
   - Channel management – the principles, approach and processes for managing the player access channels;
   - Relationship management strategy – the approach to third party and Commission relations; and
   - Recruiting and retaining talent – how the organisation will recruit personnel for the marketing organisation and the ways in which people will be developed and rewarded.

21.2 Marketing investment and sales revenue

21.2.1 Requirement

The objective of this section is for each Bidder to show how it has translated its marketing plans into investment and sales figures. In particular, it is important that each Bidder show clearly the assumptions behind their sales revenue forecast, i.e. the source of sales by game, player segment and channel, linked to its individual proposals in the game and player access plans. The figures must tie to the business plan.

21.2.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- The credibility of the sales revenue forecast – whether the revenue figures are credible when considered in the context of expected consumer behaviour, game sales levels, outlet/channel sales rates and whether the assumptions made to derive the forecast are realistic;
- The cost-effectiveness of the marketing investment plan – whether the media mix has been optimised and activities phased in an efficient way; and
- The coherence with other parts of the plan – whether the sales forecast is consistent with individual proposals in the game, player access and marketing activity plans.

21.2.3 Evidence required

1. Sales revenue and investment model
   Each Bidder must provide a simple spreadsheet model that relates total sales revenue to;

   - Consumer segments (number, frequency of purchase, spend per time period);
   - Game sales (units per game, price per game, per time period); and
   - Channel sales (revenue per outlet type/channel per time period).

   For years 1-3, the model must be detailed by major game or game type, split by outlet type and by quarter. Each Bidder must also detail for years 1-3 the split of volume by consumer segment by year and by game. For years 4-10, annual sales figures must be used.

2. Key assumptions
   Each Bidder must explain the key assumptions on which its sales revenue figures are based. The assumptions must be linked to the game, player access and marketing communications plans, so that the Commission can see clearly how specific proposals are resulting in incremental sales revenue.

3. Minimum marketing expenditure
   Each Bidder should propose what it believes to be the optimal required level of marketing investment to achieve its Principal Forecast. This level of marketing investment should be equivalent to the level of activity contained in its marketing activity plan.

   Each Bidder must also propose a minimum level of marketing expenditure (the 'minimum marketing expenditure') that it will commit to spend. This level should be expressed in two ways:

   - An absolute amount that is a minimum absolute amount or 'floor' of expenditure that it proposes to spend in all years and at all levels of actual sales. Bidders should ensure that the 'floor' marketing expenditure is sufficient to sustain the visibility and relevance of the brand among its target segments, even if sales are well below its Principal Forecast, and below the Common Forecast. Bidders should provide an absolute figure for each year of the Licence Period.
   - A percentage of sales, expressed as an annual average figure for a) the first 5 years and b) the second 5 years of the Licence Period. Actual expenditure in any year may vary from this figure, depending on specific marketing activities, providing that the average annual expenditure for each of the two 5 year periods is equal to or greater than the relevant figure.

   The actual minimum level in any one year will be calculated as the higher of the two figures in absolute terms, allowing for variation in any year according to specific marketing activities. This minimum level will be considered as a commitment by the Bidder, and the Bidder, if successful, will be required to meet this investment commitment as part of the relevant Licence condition. Where this Licensee subsequently does not meet the minimum marketing expenditure required under the Licence it shall be required to make a payment to the Secretary of State for the benefit of good causes equivalent to that shortfall.

   This commitment may be reviewed by the Commission during the Licence Period to ascertain its suitability and with a view to implementing any changes after 5 years of the Licence Period.

Marketing expenditure constitutes discretionary expenditure directed at advertising or promoting the National Lottery or any constituent lottery, including media advertising, sponsorship, retail and consumer promotions or public relations, and production costs for such advertising and promotion. It includes agency and other external fees, market research and media audits, and all forms of new channel marketing including, but not limited to, internet, mobile telephony, and interactive television. A detailed definition is contained in the Draft Licence.

Bidders should note that the definition specifically excludes any expenditure by the Licensee for solely corporate objectives, any of the Licensees' corporate overheads, including marketing-related employee salaries, bonuses, benefits and related costs. If, during the Licence Period, the Licensee changes the marketing activities that are performed in-house from that proposed in its Bid, e.g. by outsourcing activities to a marketing agency, the Licensee should notify the Commission of the change, and the Commission will decide whether the change justifies adjustment of the level of minimum marketing expenditure to reflect the costs of such activities.

The definition also excludes any expenditure on communications that are integral to playing the Lottery, rather than for marketing. This includes play-related communications via new channels. Each Bidder, in its cost estimates, should clearly separate costs to network providers between those for communications that are play-related and those that are for marketing.

Bidders should also note that they should not include in their marketing budgets, or the minimum marketing expenditure, any contribution to the NLPU. Should this change, or should the Commission require the Licensee to pay for, or contribute to, any other marketing expenditure, the minimum marketing expenditure will be adjusted, as appropriate, in line with the relevant adjustment to retention under Schedule 8, paragraph 6.

4. Supporting evidence

Where a Bidder has conducted a quantitative assessment of the consumer appeal from a game or communications proposal and wishes to link this to sales revenue, it must provide details of the assumptions it has made.

A Bidder may also wish to use a volumetric modelling to derive its sales forecasts. If it does, it must provide details of the methodology used, the raw results of the modelling and the assumptions used in deriving sales revenue.

21.3 Sales revenue risks

21.3.1 Requirement

Given the inherent uncertainty in predicting sales revenues so far into the future, the Commission must be satisfied that each Bidder has identified the risks that might lead to significant deviation from forecast revenue.

Each Bidder should focus in this section on sales revenue risks (the risks inherent in the performance of a marketing plan) as opposed to Transition risk and Operational risk, which are covered in chapters 9 and 13 respectively.

Each Bidder may wish to consider risks such as:

- New marketing activities or game launches that do not deliver sales as expected;
- Slower consumer adoption of new lottery technologies than anticipated;
- The Lottery facing increased competition from other gambling offerings; or
- Changes in player behaviour e.g. to different types of gambling.

21.3.2 Evaluation criteria

The Commission will evaluate each Bidder's response based on:

- Rigour of risk identification – whether the Bidder has identified the risks that would have most influence upon the successful performance of its marketing plan and the manner in which it would address these risks;
- Realism about risk impact – whether the Bidder has been realistic about the type and size of risks and how far they can counter them; and
- The effectiveness of any contingency plans in mitigation of the risks.

21.3.3 Evidence required

1. Risk evaluation

   Each Bidder must provide a prioritised list of the key risks inherent within the marketing plan and the potential consequences, quantified wherever possible. The analysis must focus on the significant, material risks only.

   For each of the key risks, and for potential combination of risks, each Bidder must provide a brief analysis of the probability of the risk materialising and the potential impact on sales and returns to good causes should it occur.

2. Contingency plans

   Each Bidder must provide a brief description of the plans and activities that the Bidder would pursue for each of the risks, and the extent to which it expects that the plans/activities would mitigate the risk.